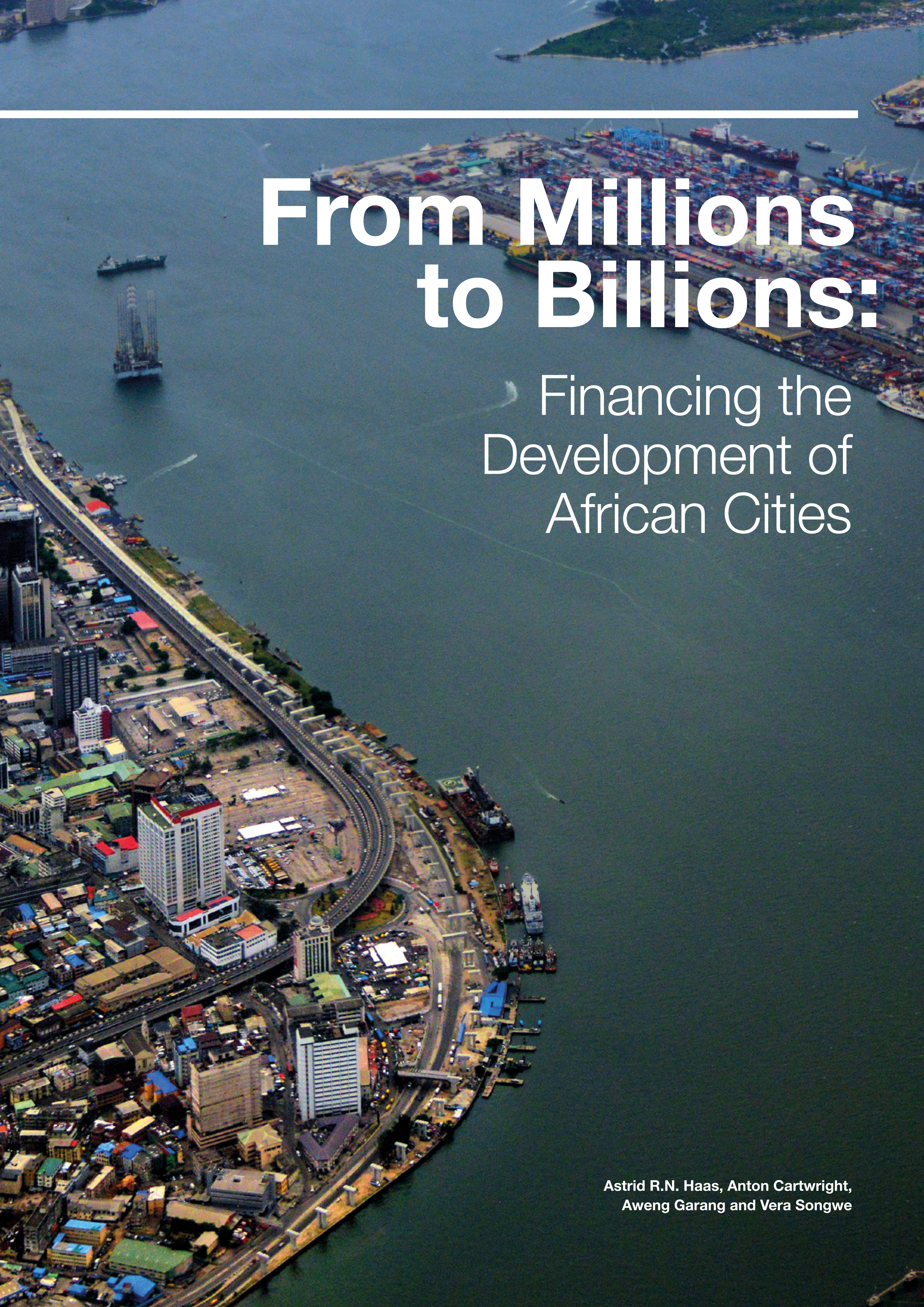

From Millions to Billions:

Financing the Development of African Cities

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Executive summary

Urbanisation is the mega trend reshaping Africa. The continent's population is rising at a stunning rate and is expected to reach 4 billion people by the end of this century.

This is coupled with unprecedented rural-to-urban migration, driven largely by young people. As a result of this demographic confluence, the number of people living in African cities is also expected to almost triple – reaching approximately 1.5 billion by 2050.

Dakar, Senegal

Lagos will be home to approximately **24.5 million** people in 2035, more than 32 times its size when Nigeria gained independence in 1960.

At an individual city level, the numbers are equally striking. Lagos will be home to approximately 24.5 million people in 2035, more than 32 times its size when Nigeria gained independence in 1960.[1] On the other side of the continent, the population of Addis Ababa has approximately doubled since 2000[2] to over 5 million people,[3] and is expected to grow by another 2 million residents by 2035.[4]

To better understand the impact of Africa's rapid urbanisation, we can look at regions like Latin America and Asia. Colombia, at its peak, had an average annual urban growth rate of 2.5% per year;[5] it took the country over 80 years to go from 31%[6] to 82%[7] urban. In China, which has experienced the world's fastest urban transition to date, cities added 700 million people in about 40 years.[8]

The population of African cities will grow by 50% in less than half the time.[9]

With numbers rising so quickly, the need to equip cities to prosper in an uncertain future is urgent. City, national, and global leaders must seize this opportunity now to ensure African cities become the bastions of economic competitiveness and vitality they could be. Leaders must double down on their efforts to offer a good life for all urban citizens – one that includes lush green spaces, access to basic services, safe communities to raise families, and sustainable solutions to climate challenges.

How well Africans plan for rapid urbanisation will set the continent's trajectory for centuries to come. History tells us that no country has ever reached middle-income status without undergoing a well-managed urban transition. Cities around the world that were once notorious for inequity, urban decline, and crime have transformed themselves through bold, intentional investments in urban infrastructure – including transport, housing, and public spaces – and by accelerating quality service provision to their citizens. These success stories can serve as learnings for the continent.

African cities are not yet the engines of economic growth they could become. Smart investments in infrastructure, quality service delivery, and job creation are desperately needed. The infrastructure gap alone is immense: closing it will require more than doubling existing investment to an estimated \$130-\$170 billion[10] per year, the bulk of which will need to be deployed in the continent's cities.[11] The task is complicated by rapid population growth, low per capita income, limited revenue collection, and centralised infrastructure delivery, which all combine to render conventional city-scale fiscal strategies woefully inadequate.

The coming together of young, economically active people in cities is an opportunity for innovation, growth, and prosperity. But to harness this potential, local and national leaders need to transform their investment in cities from millions to billions.

This report first offers a landscape analysis of city financing in Africa and illuminates the demand-side and supply-side constraints that prevent financing from reaching most African local authorities, drawing on in-depth analyses of 10 cities. The paper moves beyond existing analyses that simply conclude, 'African cities need more finance' or 'African cities need bankable projects'. Although these constraints vary in type and severity across cities, the case studies reveal common themes and highlight options for improving both the supply and demand of subnational finance if city and national governments collaborate and financiers are alerted to opportunities.

The report also looks outside Africa, highlighting best practices from Latin America and Asia that could inform approaches in African cities.

On the demand side, the report shows how African cities can proactively attract finance on their own terms through a suite of simultaneous actions to improve their creditworthiness. These include:

Lagos, Nigeria

Investing in multi-level governance.

African cities have varying degrees of fiscal and governance autonomy, and not all cities are legally able to borrow. The limited degree of devolution across the continent necessitates the involvement of national governments when cities raise infrastructure finance. In this context, collaboration between different levels of governments is critical and requires ongoing investment.

Enhancing revenue collection and stabilising fiscal transfers.

Across the continent, revenue collection is low and fiscal transfers are insufficient to meet cities' growing needs. Some African cities that could borrow more refrain from doing so due to concerns about raising revenues and servicing the debt. To address revenue collection issues, cities need to implement both administrative and policy reforms; embracing digitisation and innovation in financial technology can also help accelerate progress. Ultimately though, the ability to collect revenues will remain dependent on cities providing their citizens with the infrastructure and services they want at prices they can afford.

Improving absorption capacity.

Many African cities are unable to adequately utilize existing investment budgets in an efficient and productive way. Cities must enhance their ability to spend on appropriate projects in an accountable and timely manner. If they do this, it will help them deploy resources more efficiently while better positioning them to mobilise additional financing.

Developing infrastructure project pipelines supported by improved data.

Project sponsors and investors require pipelines that are substantiated by data showing the expected return of the project, project development processes, consultation with beneficiaries, and expected impact. This data should include how much of the planned infrastructure will be financed through the city's accounts, and the extent of the investment gap that needs to be filled by external financing. Financially robust project pipelines will remove a common impediment to raising finance.

Over the past five decades, African cities have experienced the limits of the global financial system's willingness and ability to respond to their needs. To change this, the financial sector's perspective on African cities needs to shift from 'risky' to 'critically necessary'. African cities that make the transition to competitive, inclusive, low-carbon economic hubs will reap the benefits of stability, GDP growth, job creation and talent attraction. Additionally, this investment will go well beyond those cities and have positive multiple effects for their nations, the continent and the global economy.

This report proposes several specific measures to increase the supply of finance:

Investing in appropriate risk calibration and credit rating.

Credit rating agencies need to engage directly with African cities, instead of assuming country-wide ratings apply equally to urban centres. Doing so will provide a more accurate, context-specific rating of cities' ability to borrow.

Strengthening legislative and institutional capacities to mobilise domestic capital and borrow in domestic currencies.

Cities in Latin America and Asia that now successfully access financing often first did so from their domestic financial markets. If African cities can mobilise local finance markets, financial flows will be enhanced and de-risked. These reforms must be complemented by efforts to connect domestic savers with domestic borrowers and to strengthen local financing ecosystems.

Complementing mega-infrastructure deals.

African countries are undertaking several bilateral and multilateral mega-infrastructure projects. Countries can leverage the impact of these projects by making them 'city smart' and by investing in complementary urban infrastructure and services.

Unless urgent changes are made, African cities will neither demand nor receive the finance they desperately need to meet the challenges of their unprecedented urbanisation. A combination of public- and private-sector efforts targeting the supply- and demand-side of financial markets is crucial to shaping Africa's development in the run-up to 2050, when the continent's urban population is projected to be the largest in the world.

Now is the moment to think big. When implemented thoughtfully and diligently, bold actions taken today can ensure that the continent's cities are productive, liveable, and sustainable places where citizens not only live, but thrive.

Addis Ababa, Ethiopia

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Landscape of city financing in Africa

Africa's urban landscape is transforming rapidly. Cities are expanding both in area and population and the digitalisation of communication and money transfers is driving new forms of economic activity.[2] Recent data suggests that the population of Africa's cities is growing by 3.5% per year.[13] Roughly two thirds of this growth is due to people being born in cities; the rest is due to an influx of rural populations into cities in search of economic opportunity, services, and improved living standards.[14]

Closing Africa's infrastructure gap will require more than doubling existing investment to an estimated **$130-170 billion per year.**

Sub-Saharan Africa's GDP increased more than 5-fold in the 30 years from 1990 to 2020, outpacing the 3.6-fold increase in population growth over the same period.[15] Evidence from 2,600 cities in 34 African countries shows that the simple act of moving to urban areas generates economic growth and higher standards of living.[16] Urban incomes exceed rural incomes, fertility rates are a third lower in African cities than in rural areas, and African children living in urban areas receive 2.5 – 4 years more education than their rural counterparts.[17] The growth in per capita GDP that has accompanied urbanisation has been unevenly distributed. For example, countries that have been affected by conflict in the recent past, such as Madagascar, Niger, Zimbabwe, and South Sudan, have experienced a decline in per capita income while countries such as Ghana, Tanzania, and Ethiopia have experienced GDP per capita growth alongside urbanisation.

While rapidly expanding cities have not collapsed under the influx, they have also not flourished or become the economic, social, and cultural hubs that have emerged during urbanisation phases elsewhere.[18] Many African cities are reeling from the strain and are failing to adequately service congested and increasingly unmanageable urban spaces. This is characterised by deficits in housing provision, electricity, transportation, water, and sanitation amongst other factors, which have forced many city dwellers across Africa to adopt informal arrangements for accessing housing, basic amenities, and transport.

The strong historical correlation between urbanisation and countries attaining middle-income status is predicated on governments making significant investments in the infrastructure that shapes urban spaces and allows for people to lead long, healthy, and productive lives. This same public infrastructure attracts and retains businesses, providing employment opportunities and a foundation for industrialisation. The lack of investment in Africa's urban spaces is a major reason why the continent's urban transition has not led to the same industrialisation and productivity gains that have been seen on other continents.

Closing Africa's infrastructure gap will require more than doubling existing investment to an estimated $130-170 billion[19] per year.[20] However, infrastructure provision is complicated by low levels of income per capita. In 2023, as sub-Saharan Africa's population reached the milestone of becoming 40% urban, average per capita income was estimated at $1,690.[21] In contrast, in East Asia and the Pacific, when country populations became 40% urban, their average per capita income was more than double that amount ($3,600).[22]

These low levels of income have forced many Africans into precarious situations; in most African cities, over 50% of the population are currently living in informal settlements and are outside the reach of tax authorities.[23] Low levels of income combined with inadequate revenue collection by local authorities, has made it difficult to provide the type of public infrastructure and services that cities need. Local authorities in Africa typically have very little influence over public investment in their cities. Outside Africa, subnational governments, including cities and local authorities, account for 39.5% of total public investment. This proportion is just 24% across African countries.[24]

Urbanisation represents a critical economic, political, and social opportunity for accelerating progress towards the targets set out in the United Nations' Sustainable Development Goals (SDGs) and the African Union's Agenda 2063, which provides a blueprint for transforming Africa into the global powerhouse of the future. Improving cities' access to finance is critical to unlocking this potential.[25,26] Augmenting public investment with financial borrowing to build urban infrastructure and services, charge users through tariffs and taxes and servicing long-term debt, has been a proven mode of urban development. If this approach is applied in African cities, it could result in the creation of 380 million jobs, catalysing economic growth and development.[27]

Proponents of increasing finance to manage urbanisation cite the humanitarian imperative of universal access to basic goods and services, the economic importance of connecting goods and people across competitive economic hubs, and the environmental imperative of avoiding the negative externalities associated with climate change and informal service provision. These requirements for finance are also highlighted in the nationally determined contributions (NDCs) for African countries under the Paris Agreement as a condition for their targeted 32% reduction in greenhouse gases by 2030.

In practice, however, accessing long-term finance for investment has proven difficult for African cities. Africa has substantially lower subnational borrowing, which contributes to significantly lower subnational investment, compared to other regions in the world. As a result, African cities overly depend on transfers from their national governments and on infrastructure constructed by national agencies responsible for electricity, roads, and water. While these investments are important to cities, the volume of fiscal transfers is too small and the decisions about how money is allocated are often separated from the realities on the ground. This creates uncertainty for local governments as their budget and investment decisions are dependent on the timing of transfers from national treasuries. As a result, it has proven difficult to deliver the infrastructure and services required by growing urban populations, and many of the infrastructure projects that do happen have proven difficult to integrate into the evolving socioeconomic fabric of the respective cities.

Fiscal decentralisation has been on the African Union's agenda for over a decade. In June 2014, the African Union adopted the African Charter on Values and Principles of Decentralisation, Local Governance and Local Development and approved the creation of a High Council of Local Governments. However, country-level appetite for this Charter and the work that it requires has been extremely limited; only eight countries have signed it and many countries have cited fears of local corruption and fiscally empowered political opposition as barriers to budget devolution.

These longstanding issues were summarised in 2019 by the African Development Bank (see **Figure 1**).[28] There is, however, a new sense of urgency to address these challenges given Africa's urbanisation megatrend and the limits of fiscal devolution, as well as concern about the global consequences of not being able to invest in rapidly growing cities.[29]

Although it is estimated that there is over $400 trillion in the global financial system,[30] the bulk of this money sits in jurisdictions perceived to be low risk. There is growing attention to the idea that changing this allocation of global capital in favour of African cities is in the interest of not only those cities but also general financial sector stability. This is not a trivial undertaking as finance generally does not flow to places that are designated to be high risk and in greatest need of development, places that are almost by definition considered 'unbankable'.

The African Development Bank (2019) identified the constraints on, and problems with, subnational financing in Africa as:

- **Varying degree of self-governance and fiscal devolution to the subnational governments.**
- **Inadequate fiscal transfers to subnational governments and insufficient investment in the relevant human capital/institutional capacities.**
- **Stretched planning and service delivery capacity in cities and towns due to rapid urbanisation.**
- **Expansion of Public Private Partnership (PPPs) without due consideration of private sector capacity nor clear oversight or objectives.**
- **Asymmetric power relations between globalised capital and sub-national governments exposing African governments to new financial market risks.**
- **Unstable governance structures within local government making it difficult to manage the above risks.**

Figure 1: *Challenges to financing subnational governments in Africa (African Development Bank, 2019)*

Solar panels being installed in Cape Town, South Africa

Demand-side constraints: why are cities not demanding more finance?

This section draws on data from the World Observatory on Subnational Government Finance and Investment (SNG-WOFI), the most comprehensive comparative data set on subnational finance, which is compiled by the Organisation for Economic Co-operation and Development (OECD) and United Cities and Local Governments of Africa (UCLG-Africa).[31] This data set provides information on 41 out of the 54 African countries,[32] to which we have added the Democratic Republic of the Congo. This summary data is then complemented by in-depth case study analyses conducted on ten cities[33] across Africa and presented in **Annex A**.

Legislative and institutional constraints

Of the 41 countries covered by the SNG-WOFI data set, 35 (85%) have legislation permitting subnational borrowing.[34] However, this does not mean that all these countries have the appropriate regulatory framework in place to activate finance at the subnational level. For example, in Uganda, the law permits local governments to borrow up to an equivalent of 25% of own-source revenue. Given that most cities in the country, including the capital city Kampala, generate very little own-source revenue, this effectively prevents borrowing as the administrative costs would be higher than the amount that could be borrowed. In Cameroon, Tunisia, and Morocco, subnational entities are only allowed to borrow from the national financial intermediary. Tanzania has a Local Government Loans Board through which any local authority seeking finance has to act. The Loans Board, however, has almost no balance sheet and therefore very little capacity to extend finance. In Nigeria, state governments can borrow from local institutions, but only the federal government is allowed to enter bilateral and multilateral contracts with international financiers.

In nine of the 41 countries, local government borrowing is restricted to local currency.[35] In general, this is a sensible policy as it removes currency risks for cities. However, in five of the countries that only allow borrowing in local currency, the African Development Bank does not lend in their respective currencies, which effectively means that cities in these countries cannot access financing through the Bank, irrespective of their creditworthiness.[36]

These criteria become even more restrictive for cities in countries where the financial markets are not yet deep enough to provide sufficient financing. Even where local currency finance is available – from pension funds or insurance companies, for example – this funding has proven difficult to direct to urban infrastructure. This is because many African countries do not yet have the mechanisms through which private savings can be used to finance critical but non- or low revenue generating infrastructure and services (e.g., through the bond or long-term loan market).

...even though most countries allow some form of borrowing by cities, stipulations within national legal frameworks make this **very difficult in practice.**

Legislation in all but four countries[37] requires approval from a central government entity for any borrowing at a subnational level. Further, any subnational borrowing through the African Development Bank must be approved by the respective country's ministry of finance. While these rules are intended to prevent unsustainable borrowing at a subnational level, country-level restrictions have at times been arbitrarily imposed for political reasons (e.g., differences in political priorities or partisan affiliations between the local and national governments).

Collectively, the considerations above mean that even though most countries allow some form of borrowing by cities, stipulations within national legal frameworks make this very difficult in practice. These legal and institutional barriers have been one reason African cities have seldom been able to access finance. Addressing these constraints is necessary but insufficient for improving the demand by African cities for finance. Other factors linked to the health of the local economy, local government, and financial system also affect the supply of finance to African cities and must be addressed.

The absence of publicly available subnational financial and fiscal data for many African cities is a deterrent to financiers.

Lack of data on the financial health of cities

The absence of publicly available subnational financial and fiscal data for many African cities is a deterrent to financiers. For example, while Kenya publishes detailed, audited accounts of each of its counties on an annual basis, more centralised countries like Algeria, Côte d'Ivoire, and Angola do not release comprehensive, audited, city-specific data. This lack of data extends to other areas as well, most notably the lack of asset registries, including land cadastres and infrastructure inventories.

Weak revenue collection

Own-source revenue in many African cities is low both because of incomplete decentralisation in many contexts as well as administrative impediments. This compounds the problem of unreliable transfers from national governments. For example, cities such as Kisumu, Kenya are legally able to borrow, but due to low own-source revenue collection (which currently makes up just over 10% of their budget), they are unlikely to have a balance sheet or the income to convince many financiers that their loans will be repaid, as highlighted in their credit rating report.[38] Similarly, a 2019 study found that Dar es Salaam, Tanzania received just $23.70 per person per year when all sources of revenue – including Official Development Assistance (ODA) – were considered, with most of this being spent on civil servant salaries.[39] In addition to providing constraints on raising finance, revenue collection challenges make the servicing of infrastructure debt difficult.

Poor absorption capacity

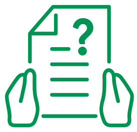
Many African cities struggle to spend even the limited financing they already have access to. One of the reasons is constraints in procurement processes for infrastructure construction. For example, Kisumu, Kenya was only able to spend 32% of its allocated capital investment budget in the financial year 2019/20, and this was without taking on further finance from capital markets. These constraints often lead to significant delays in project implementation. An audit carried out for municipalities in Algeria's capital, Algiers, found that there was an average delay of five years between when projects were approved and when they were implemented. These delays resulted in over 25% of planned and approved infrastructure projects being cancelled. This creates perverse incentives for local governments. For example, eThekwini Municipality in South Africa has an approved bond facility, but the city's finance officials are reluctant to activate it. They know they will struggle to procure the required infrastructure, and they are already behind with revenue collection on existing infrastructure and services. This includes a backlog of uncollected debt so great that it exceeds the value of their potential bond.

Very few cities in Africa have a clear sense of **how much** they need to borrow, **why** they need to borrow it, and for **which projects** it would be most preferable to borrow.

Unimplementable infrastructure plans and project pipelines

Infrastructure planning is relatively inexpensive and is a critical component for attracting investment. The lack of a long-term urban infrastructure plan is a major constraint on mobilising finance and investment in cities such as Kinshasa, Democratic Republic of the Congo. However, while most African cities have a plan, the majority struggle to translate these plans into systematic and investable pipelines of projects for financing. For example, in Addis Ababa, Ethiopia, which has a plan and an associated pipeline of projects, the city's most recent Public Expenditure and Financial Accountability (PEFA) assessment highlighted that decision-making on infrastructure projects was largely with political considerations, rather than adhering to the plans in place.

Beyond a list of planned projects, it is important that cities advance compelling narratives about the role these projects will collectively play in social, ecological, and economic progress. This includes investing in climate transitions, low-carbon industrialisation, and human-rights-enhancing services and unlocking the competitive advantage of young, economically ambitious urban dwellers. Together, this can attract the attention of financiers to fund the infrastructure African cities really need rather than the infrastructure that is prescribed – and ensure that investments are linked to amplify economic and social impact.



Missing rationale for financial access

Finance is most valuable when it allows cities to escape their current set of circumstances and access options that generate infrastructure multipliers, unlock new income, or alleviate existing stresses. For African cities, finance is necessary to break existing poverty traps and catalyse multiple virtuous cycles. Currently, urban infrastructure finance is too often seen as an end, but finance without a plan can be damaging to cities.

Very few cities in Africa have a clear sense of how much they need to borrow, why they need to borrow it, and for which projects it would be most preferable to borrow. Cape Town, South Africa is an exception to this. It has been able to clearly articulate not only its investment plan but the associated financial plan. The city's ten-year, $7.7 billion infrastructure plan is based not only on a clearly defined fiscal gap, thereby ensuring complementary public and private finance, but it is earmarked against opportunities to enhance growth, reduce costs, or expand the revenue base. This in turn will free up resources that can be used to service the debt.

Supply-side constraints: why does long-term finance not reach African cities?

Even where the demand-side constraints are alleviated, there may still be limited supply of finance directed to African cities. To advance the possibility of lending to cities, the African Development Bank issued its Subnational Finance Guidelines in 2019.[40] Overall, these guidelines provide sound criteria, and are similar to what many other financiers would adhere to when assessing whether to extend lending to African cities.

However, as highlighted by the case studies in Annex A, very few cities in Africa would qualify for this lending because they would not meet many of the criteria. This is perhaps one of the main reasons why the Bank has not issued a direct loan to any city in Africa since the passing of the guidelines in 2019.[41] The following section provides an analysis of the guidelines and highlights some of the barriers to supplying subnational finance both for the Bank and other financiers.

Legal structures

The Bank's eligibility criteria for subnational entities are listed in **Figure 2**. Some of these criteria, however, constitute a barrier to financial market access for many African cities. For example, there are several countries where fiscal decentralisation is not yet advanced enough. In these cases, cities are not independent legal entities with distinct legal personalities as required by the eligibility criteria. These cities, which include those in many Francophone African countries as well as Angola, are also not responsible for the major capital investments within their boundaries due to their more centralised structures.

Domestic versus foreign currency lending

A further constraining criterion, as already highlighted, relates to the currencies in which the Bank can lend.[42] Given the structural composition of cities' balance sheets, it is highly preferable for local governments to borrow in their local currency; otherwise, they will take on considerable currency risk. This is because unlike national governments, cities do not have currency-hedging instruments available to them, such as holding foreign exchange or gold, or printing more money. Further, most of their revenues, from which they will have to make repayments on their borrowing, will also be denominated in domestic currency. These currency risks at a subnational level have caused major destabilisation in other parts of the world. For example, in Latin America and Asia they have led to financial crises that have had not only national but also regional impacts.[43]

The African Development Bank is only able to lend in certain local currencies, which excludes cities from borrowing directly if their currency is not part of this list. Until international financiers have the confidence to lend in local currencies, or local institutions have the capacity and ability to borrow in international currencies, supply is likely to remain constrained for most cities.

The eligibility criteria laid out in the African Development Bank's subnational finance guidelines:

- **Sustainable debt profile with low / moderate risk of distress.**
- **Sufficient headroom for borrowing within the African Development Bank allocated financial headroom for that country.**
- **Sustainable macroeconomic position.**
- **Positive recommendation by the Bank's risk committee.**
- **Clear and sustained commitment to a reform agenda where financing from the Bank will play a substantial role.**
- **Demonstrated commitment to building public-sector institutional capacity.**
- **Adequate expenditure programme on capital investments for development.**
- **Adequate fiscal arrangements with central government.**
- **Can contract and obtain financing independently as an entity.**
- **Can borrow in forex (where the Bank does not have adequate local currency lending capacity).**

Figure 2: *Criteria for subnational entities to borrow from the African Development Bank*

Independently audited accounts

Among the other Bank criteria constraining the supply of finance to many city governments is the need for regular, independently audited accounts. While this is a sound criterion and should be a pre-requisite for borrowing, at least half of the ten cities used as case studies in this report did not have publicly available accounts that would comply with this requirement.

Given that most of the city governments have not had any experience borrowing, they also have no credit history, making it challenging to assess their overall risk profile. It also makes it difficult to know if predicted cash flows are sufficient to meet debt obligations. Many of the cities that rely on transfers from the central fiscus – for example, Dar es Salaam, Tanzania – note that the amount and timing of transfers are insufficient, unreliable, and untransparent.

Credit ratings

The Bank's guidelines further highlight the importance of economic risk (e.g., the size and composition of local GDP and economic policies), financial risk (measured by financial ratios on revenue, expenditure, and debt management), political risk, and project viability when appraising the ability of cities to borrow money. Political risk has multiple dimensions, but for cities in opposition to their national governments, the risk is that in the absence of robust legal frameworks, budget and investment decisions by the national government may be used towards political ends.

Most cities in Africa have not yet received a third-party credit rating expressing an independent opinion on their financial health and risk. There are not many rating agencies in Africa that have experience assessing subnational ratings, and international credit ratings agencies have often been criticised for mis-calibrating African risk. The Bank's guidelines make provision for this by accepting that any project at a subnational level holds the same credit rating as the national government, provided that the national government underwrites the project. This does not help Algiers, for example, where Algeria does not have a sovereign rating. Neither is it of much benefit to countries that have a rating below B- (see **Figure 3**[44]), as they face substantially higher costs of borrowing and stringent limits to the amount they can borrow.

Sovereign status

In addition to the specific eligibility criteria for subnational entities, there are more general criteria in the Bank's guidelines that pertain to the status of the sovereign. Specifically, the Bank categorises borrowers into three categories:

Category A countries:
These are countries that are eligible for African Development Fund (ADF) resources. This is financing on concessional terms provided to the lowest-income regional member countries, which are unable to borrow on a non-concessional basis. Many of the continent's fragile states fall into this category. Cities in countries that fall into this category can only borrow from the Bank with a sovereign guarantee.

Category B countries (and those transitioning to Category C):
These are the subset of regional member countries that are economically strong enough to be eligible for finance through the Bank but also qualify for ADF funds. Cities in these countries may access both ADF and Bank resources. However, if they want to access concessional lending from the Bank, they require a sovereign guarantee. They may apply for non-concessional Bank loans with or without sovereign guarantees.

Category C countries:
These are middle-income countries that are eligible to borrow non-concessional Bank loans but not ADF funds, such as South Africa. For cities in countries in this category, lending can happen on sovereign and non-sovereign guarantee terms, based on their eligibility.

* *Whether AfDB Lends in Local Currency*
** *Fragile and Conflict Affected State by AfDB Definition*
*** *S&P, Fitch, Moody's*

		AfDB category	GDP, billions, PPP (current international $)	GDP growth (annual %)	Population (millions of people)	Urban population (millions of people)	Urban population as % of total	Debt-to-GDP ratio (%)	Local currency financing available*	FCAS**	Sovereign credit rating ***	Budget deficit (%)	Revenue-to-GDP ratio (%)
1	**Benin**	A	59.241	5.5	13.760	6.864	49	49.94	Yes	No	**B+**	-5.59	14.15
2	**Madagascar**	A	56.754	4	29.766	11.336	39.2	53.13	No	Yes	**B-**	-6.67	11.24
3	**Rwanda**	A	42.346	6.2	13.499	2.364	17.6	66.58	Yes	No	**B+**	-6.53	24.56
4	**Tanzania**	A	227.725	5.2	63.343	22.862	36	40.03	Yes	No	**B2**	-3.28	14.42
5	**Togo**	A	25.103	5.4	9.070	3.748	43.4	63.75	Yes	Yes	**B**	-7.34	16.97
6	**Uganda**	A	145.157	4.6	45.046	11.717	25.6	51.76	Yes	No	**B**	-5.78	14.07
7	**Côte d'Ivoire**	B	202.647	6.2	29.116	14.338	52.2	52.14	Yes	No	**BB-**	-6.73	15.89
8	**Kenya**	B	338.964	5	51.539	15.102	28.5	67.83	Yes	No	**B**	-6.05	16.82
9	**Senegal**	B	78.547	4.1	18.162	8.202	48.6	73.16	Yes	No	**B+**	-6.13	19.44
10	**Algeria**	C	628.990	3.8	45.973	32.807	74.3	62.99	No	No		2.15	29.91
11	**Botswana**	C	51.886	3.8	2.675	1.852	71.6	20.16	Yes	No	**BBB+**	-2.03	23.66
12	**Gabon**	C	41.992	2.8	2.187	2.116	90.4	65.77	Yes	No	**B-**	1.82	14.73
13	**Mauritius**	C	37.012	5.1	1.261	0.516	40.8	73.4	No	No	**Baa2**	-3.46	
14	**Namibia**	C	30.663	2.8	2.643	1.341	53	71.96	No	No	**BB-**	-7.26	30.68
15	**South Africa**	C	997.444	0.9	61.528	40.295	67.8	68.98	Yes	No	**BB-**	-4.49	26.94

Figure 3: *Macroeconomic indicators for a selection of African countries*

The Bank's subnational finance guidelines stipulate that subnational entities – including cities, public-sector enterprises, special purpose vehicles (SPVs), and other financial intermediaries set up by cities – are subject to the same respective classification of the regional member country where they are located.

The challenge with this categorisation, however, is its inability to distinguish between diverse subnational entities. In Nigeria, for example, Lagos is a far more powerful economy than other cities. Therefore, even if Lagos could comply given Nigeria is a Category C country, many other cities in Nigeria would be too small or have insufficient revenue to afford non-concessional loans. A further challenge, particularly for those cities only eligible for ADF loans, is that the requirement for a sovereign guarantee makes national governments take on this risk. This exposes the borrowing ambitions of cities to the political decisions of national governments, which may be a particular concern when the city is ruled by an opposition party.

What works in unlocking financing for cities: case studies from Latin America and Asia

Countries across Latin America and Asia – including Brazil, Colombia, Mexico, Indonesia, and the Philippines – have been able to unlock the many benefits of their urban transition in the form of economic growth and development. Access to capital markets was critical for cities in these countries to invest in their respective urban transitions. To illustrate this further, this section presents case studies from Mexico and the Philippines. It analyses the key factors – apart from higher per capita incomes – that enabled their subnational entities (including cities) to access finance.

Mexico – stabilising and leveraging fiscal transfers

Prior to 2000, most states and municipalities in Mexico did not have access to capital markets, domestically or internationally. Instead, infrastructure and services were financed through intergovernmental fiscal transfers coupled with some shorter-term commercial bank loans. At the time, states and subnational entities (including cities) received approximately 95% of their budget from these transfers.[45] However, as many other cities around the world have experienced, these financial flows were not sufficient to bridge the growing infrastructure gap.

Following the elections in 2000, the country underwent several reforms to deepen fiscal decentralisation.[46] This included increasing the amount of intergovernmental fiscal transfers to states and strengthening the revenue-sharing arrangement between the national, state, and municipal governments. These changes were codified in law, most importantly the revisions of the Ley de Coordinación Fiscal.[47]

It was in this context that the Mexican government began working with Evensen Dodge, a financial advisory firm with experience helping municipalities in the United States access the bond market.[48] Together, they set out to assess how to unlock more financing for Mexican states and, through them, cities. Studies conducted at this time highlighted that most states were underleveraged and could take on debt if they had access to it. Further, liquidity in the local currency market was estimated to be about $4-6 billion annually, providing a substantial potential source for infrastructure finance.[49]

To understand how to unlock this finance, they analysed how the intergovernmental fiscal transfers could be leveraged as a revenue stream from which any potential investors would need to be repaid. In particular, their analysis focused on identifying which streams were most predictable and understanding how large they were. The team from Evensen Dodge, together with the Government of Mexico, then developed a special purpose trust vehicle that could ringfence these revenue streams to guarantee repayment to financiers.[50]

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In addition to this ringfencing, the legal and public financial structures also had to be amended, because at the time, bond issuance at a subnational level was prohibited. Amendments not only focused on allowing subnational entities to borrow, but also provided a strong overall framework within which it could happen.[51] In addition, state governments then had to set up bond banks from which the financing could flow to a more local level, including to cities.

As this was a costly and technically complex undertaking, Evensen Dodge enlisted support from the United States Agency for International Development (USAID) through the Global Development Alliance,[52] to help share some of the risks and costs of the programme. Together, the tripartite partnership between the Government of Mexico, Evensen Dodge and USAID also undertook the following capacity-enhancing work:

- Exploring financial market structures to mobilise credit from the domestic market in local currency.
- Finding ways to lower the cost of borrowing for subnational entities by issuing bonds.
- Aiding states and municipalities in understanding how to engage with private investors.
- Incentivising states and municipalities to improve their financial health.
- Introducing pooled-financing mechanisms to allow access to capital markets for subnational entities with smaller projects and transactions.

Mexico City, Mexico

Importantly, these reforms were conducted in parallel with efforts to strengthen the state and local government structures to absorb increased finance. For example, the Institute for Technical Development of Finance (INDETEC) was engaged to provide technical assistance to the subnational entities to prepare pipelines of projects.[53] The costs of the technical assistance were shared between the state receiving it and the ministry of finance at a national level. By having a national institution carry out the technical assistance, the training was embedded within national structures, which states could access, and drove longer-term sustainability of the project.

These reforms, which were undertaken between 2000 and 2013 on both the demand and supply side, were aimed at bringing together investors that were not otherwise familiar with investing in local infrastructure. They also aimed to stimulate the demand side of borrowing by encouraging more states and municipalities to access financing through capital markets. The underpinning fiscal decentralisation efforts coupled with improving the predictability, transparency, and volume of transfers to subnational entities was successful. They were key in mobilising over $4 billion in local currency financing from Mexico's domestic market for infrastructure projects for 90 public entities, including smaller cities, which would otherwise not have had the opportunity to access this form of financing.[54]

Philippines – institutions and frameworks to support local government borrowing

The Philippines' 1987 Constitution[55] notes that all "local government units shall have a just share, as determined by law, in the national taxes which shall automatically be released to them".[56] In addition to the Constitution, the Local Government Code, passed in 1991, expanded the taxation powers, and therefore the potential own-source revenue, of local governments, including cities.[57] It also reformed the intergovernmental transfer system by increasing the amount of the transfer allotted to local governments, instituting a transparent and rules-based system, and improving the predictability and flow of revenues by mandating an automatic release of funds to local governments.[58]

In 1996, the Government of the Philippines published a Local Government Financing Framework. This framework helped enhance capital market access for local governments by providing a spectrum of targeted approaches based on their capacity and level of development.[59] In particular, the framework distinguished between:

- Poorer local governments that required help to access subsidised loans.
- Middle-income local governments that were supported by different government financial institutions.
- Wealthier local governments that were required to access capital finance, particularly from the local private sector.

These various pieces of legislation formed the basis of strengthened decentralisation and, through this, opened capital market access to cities and other local governments at various stages of economic and financial development. It also allowed the government to ensure that wealthier cities were not crowding out subsidised loans for poorer local governments, in contexts where they would also be eligible to access other sources of finance.

To support the implementation of these reforms, the Philippine Ministry of Finance set up two institutional structures. The first, established in 1984, is the Municipal Development Fund Office (MDFO). This subnational financial intermediary has a mission to provide capital finance to infrastructure projects at a local level that are both social and economic in nature and are therefore less likely to be commercially viable.[60] Eligible local governments can apply to the MDFO to finance their projects, and funding is usually released in the form of blended finance that combines loans and grants. In addition, the MDFO provides technical assistance to the local governments in both the project selection and preparation stage. By accessing financing through a national-subnational financial intermediary – and building a track record of repayment – smaller cities can begin to create a credit history.

The second institution is the Local Government Unit Guarantee Corporation (LGUGC), a private financial guarantee institution that was incorporated in 1998 and has the Bankers Association of the Philippines and the Development Bank of the Philippines as its shareholders.[61] It provides guarantees to local governments, including cities, that want to access private capital financing for infrastructure. They pay a fee that ranges from 0.25-2% of the amount borrowed based on a risk assessment carried out by the LGUGC. The LGUGC in turn guarantees partner financial institutions, usually a bank or subsidiary of the LGUGC, in the case that the local government defaults on its loans. For some projects, other development financiers may also provide guarantees. For example, USAID has provided co-guarantees for some water projects.

The LGUGC also undertakes credit ratings for local governments. As highlighted, this is important to signal the financial health of the local government to private investors and opens capital markets to them. It also ensures that the LGUGC only provides guarantees for local governments, including cities, with an investment credit rating and therefore who are ready to borrow. Having a local agency provide the credit rating ensures that local governments can be rated by institutions that truly understand the local context.

Implications and recommendations

African countries have learned the hard way not to rely exclusively on the efforts of the Global North for their development.[62] Their efforts to increase financial flows to cities should instead focus primarily on options within their control. Based on the analyses of the ten case studies, coupled with the learnings from Mexico and the Philippines, below are some of options available to African cities.

Create stronger multi-level fiscal and financial governance

The borrowing capacity of all cities is enhanced by supportive and enabling national governments. For many African cities, their only viable option to attract infrastructure finance is through their national government. Regardless of whether finance is accessed by cities or by national governments on behalf of cities, the success of the infrastructure investment will hinge on effective working relationships between the two.

Therefore, investment in national urban policies is needed to ensure that capital allocations at the national level – including for energy, water, and transport utilities – consider cities as systems. Close collaboration between local and national governments is also critical to manage currency risks, establish borrowing guidelines for cities, and ensure timely and predictable transfers from the central fiscus. Although not perfect, South Africa is certainly the continent's most advanced country in this respect and can teach us many lessons.

Improve data collection and publication on municipal finance

Greater effort is required to make audited financial data more easily accessible to potential financiers. The case studies for the analysis were compiled mostly using publicly accessible data. However, this exercise revealed that up-to-date and relevant city data is rare despite being what investors and others interested in cities will be looking for. It has been estimated that every dollar invested in data could drive returns between $7-73 in economic benefits, depending on the sector and geography.[63] The same is likely to be true for well-formulated and accessible municipal finance data.

Further to finance data, other complementary data is also necessary to give meaning to long-term development plans. This includes, for example, estimates of urban population by sub-region of the city, extent of service delivery backlogs, cost recovery through tariffs, capital and maintenance costs of desired infrastructure, and the extent to which this infrastructure will be financed by public and private investments.

Invest in enhanced revenue collection and reliable fiscal transfers

The easiest way to enhance flows of finance to Africa's cities involves improving their revenue collection and ensuring more reliable transfers from national governments. Revenue collection has been significantly aided by technology development, including mobile money tracking, drone surveillance, and satellite imagery. This is all making data collection easier, for example by creating property cadastres for property tax. However, it is important to note that technology is only as good as the underlying fiscal and governance system that it supports.

Secure revenue streams against which cities can borrow

Latin American and Asian countries that have been successful in unlocking finance for cities have ensured a depth of fiscal decentralisation that has enabled cities have a secure source of revenue. Even where this was not the case, such as in Mexico, reforms were instituted to ensure that the volume, transparency, and predictability of intergovernmental fiscal transfers were legally protected. The mechanisms put in place by the Government of Mexico at this time meant that Mexican states had a secure stream of AAA-rated local currency revenue, in the form of national transfers, which could be leveraged for infrastructure financing.

Ensuring transparency in the sources of revenue was critical for cities to understand the operating surplus[64] against which they could borrow when approaching capital markets. Therefore, where cities primarily rely on intergovernmental fiscal transfers, ensuring reliable and predictable allocations from national governments requires new institutions that can generate formulas for this allocation and oversee transfers in ways that transcend political agendas and cycles. Algeria's Solidarity and Guarantee Fund for Local Authorities and South Africa's Finance and Fiscal Commission provide good examples of such institutions, which could be replicated elsewhere.

Develop implementable project pipelines supported by coherent narratives

Finance needs somewhere to flow to and having clearly implementable project pipelines that focus on cities as whole systems is key for this. Examples from the case studies where this has been done well include Lagos' integrated transport plan, Abidjan's Greater Abidjan Master Plan and Cape Town's ten-year infrastructure plan, all of which have attracted finance. In addition, Lagos' implementation of its bus rapid transit (BRT) system demonstrates the value of hybridising urban transport systems rather than simply adopting blueprints from very different contexts. It is no coincidence that the Lagos BRT is among the most financially viable systems on the continent.[65]

Many cities have plans, but, as highlighted, not all of them are implementable. To address this, they must be accompanied by technocratic detail that ensures finance is invested in an effective and timely way to unlock economic opportunity. Cities need to invest in their own project preparation units and finance capacity and need to be clearer about the costs of operating and maintaining infrastructure.

These plans should also forge compelling narratives around low-carbon, climate-resilient development. In a global economy trying to decarbonise, African countries hold the uncommon advantage of low levels of absolute and per capita greenhouse gas emissions. Rather than insisting on their right to exploit fossil fuels, African cities can develop narratives around how to harness new technologies and modalities that combine dependence on renewable energy with resource-efficient construction and material flows, social inclusion, and nature-regenerating cities. These narratives are more likely to attract finance seeking to comply with environmental, social, and governance (ESG) criteria than narratives replicating the urban and industrial development pathways of an era that no longer exists. In the process, African cities can reposition themselves from base stations for commodity extraction into vibrant socioeconomic hubs.

Improve absorption capacity for projects

One of the main takeaways from the case studies is the need to ensure that cities can spend larger volumes of finance accountably and in a timely manner. Part of this can be done by updating local procurement processes and, as Cape Town has demonstrated, by planning not only for investment but also for finance. It has begun to reap the benefits of ensuring that all major capital allocations pass through respective planning, budgeting, and strategy screens that involve expenditure contributing to growth, cost saving, or revenue increases. This type of investment strategy is attractive to financiers but needs to be complemented by comprehensive consultations to ensure that the beneficiaries of infrastructure and services value what they receive and are prepared to pay tariffs to sustain it.

This type of consultation is not easy for city officials as urban communities seldom present an aligned set of needs and wants. However, investment in communication and consultation can deliver significant benefits when it comes to enhancing revenue collection potential. Dar es Salaam, Tanzania has street committees, 'mtaas', established for this purpose, but the central government has been unable to harness their potential in infrastructure planning. Without enfranchising local communities, it is difficult to ensure that investments foster rather than fragment city systems.

Invest in appropriate credit risk ratings

Subnational credit ratings (including for cities) are not common in Africa, and securing appropriate ratings for cities currently often relies on international agencies. However, to develop an appropriate and fair rating requires a deep understanding of local contexts. As things stand, most African countries and cities feel the global credit rating agencies mis-represent them.

Therefore, there needs to be substantially more investment into local rating capabilities for cities. In both Mexico and the Philippines, an important factor to opening opportunities for investment into the local currency market was the establishment of regular and transparent credit rating processes. For some lenders these processes are a statutory requirement, but at a minimum they provided

> One of the main takeaways from the case studies in this report is the need to ensure that cities can spend larger volumes of finance accountably and in a timely manner.

domestic market financiers with third-party assessments of cities' financial health and debt servicing capacity. Furthermore, in India, the United States Agency for International Development (USAID) supported agencies involved in rating corporate bonds to develop a module for municipal ratings.[66] This does not typically happen organically, as without municipal borrowing there is no demand for such ratings. However, the Indian experience suggests that once cities and other local entities receive ratings and access finance, this generates rolling demand for ratings that, in turn, sustains risk appraisers and the financial ecosystem.

To support better risk appraisals and credit ratings, it is important to create new narratives around the differences that finance could make, including developing the qualitative and quantitative data that will allow African cities to engage credit rating agencies on their own terms. Central to this is emphasising the risks to the global economy if African cities fail to unlock their transition to competitive, inclusive, low-carbon economic hubs. Highlighting the resilience and entrepreneurial capacity of Africa's urban residents is also critical to shift perceptions of financial risk in African cities and unlock new finance. In the process, perceptions of lending to African cities would shift from 'risky' to 'critically necessary'.

Strengthen local currency markets

As mentioned above, it is important for cities to be able to borrow in local currency. For most African cities, this requires reforms to improve the volume of local currency financing available. In a growing number of African countries there are now pools of long-term capital linked to pension funds and local insurance. However, these savings are difficult to connect to the public infrastructure investment needs in cities. In Dar es Salaam, for example, the national social security fund invested in the construction of two large buildings with the view to generating rental income. These buildings look set to make a financial loss due to insufficient demand for this type of rental space.[67] There might have been better, more productive, allocations of these savings had the social security fund had access to an infrastructure bond, for example. As this example demonstrates, any efforts focused on increasing cities' ability to take on finance need to be complemented simultaneously with local financial market reforms that will help unlock the supply of the right type of finance that cities need for long-term infrastructure investments.

Institutional frameworks and mechanisms also need to be developed to link domestic savings with investments in urban infrastructure. This can be done in various ways. In the Philippines, subnational financial intermediaries, such as the Municipal Development Fund Office and the Local Government Unit Guarantee Corporation, were created to channel and guarantee funds to specific cities and projects. In Mexico, this was done through the strengthening of the legal framework for fiscal decentralisation and financial flows. In both cases, this helped mobilise latent domestic capital and direct it to subnational investments. Some of these institutions already exist on the African continent such as the Caisse des Dépots et Consignation (Deposit and Consignment Funds) CDCs that are highlighted in case studies in many Francophone countries. Strengthening existing African financial intermediaries and creating more such institutions – to both unlock savings and help manage risks – would enable financial flows to cities.[68]

Further considerations for financing African cities

To have an impact on Africa's urbanisation trajectory and ensure these reforms result in a more diverse set of financing options and enhanced liquidity for cities, they need to be structured in ways that empower the financial architecture, including regional banks such as the African Development Bank, to be better placed to appraise and lend to city governments. Examples of how this could be done, and thus amplify the other reforms highlighted in this paper, are outlined below.

Refinance existing infrastructure

Over the past decade, many African countries have celebrated mega-infrastructure projects. Most of these have been nationally financed in bilateral deals and implemented by national governments. Examples include Dar es Salaam's rapid rail, Luanda's housing projects such as Kilamba Kiaxi, Lagos' Eko Atlantic development, and Egypt's new administrative capital. However, city governments have often been excluded from discussions about these types of investments. Further, many of these projects have been financed under opaque terms. The result has been limited crowding-in of private capital and few economic multipliers. Therefore, refinancing of this existing debt, with city governments integrally involved, offers the chance for a more diverse financial landscape and more systemic infrastructure planning.

Develop commercial opportunities to complement existing infrastructure

There are financeable opportunities for complementary development around infrastructure projects currently underway. Such developments would make these infrastructure projects more viable and generate new economic opportunities. Examples include:

- Commercial precinct development around Bus Rapid Transit hubs, such as in Lagos, Dar es Salaam, or eThekwini, which would enable land value capture and increase passenger usage.
- Catchment stewardship that reduces siltation of newly constructed dams and flood buffers that protect urban infrastructure and housing developments in eThekwini.
- Renewable energy generation in support of industrial development zones in Lagos and Addis Ababa.

Financing these developments can offer opportunities for extending finance to smaller projects with commercial value in terms of new revenue or avoided loss.

African cities will become a growing market for construction materials, energy and water services, transport, and food as both population and incomes grow over the next three decades.

Finance value protection as well as value creation

The best form of mitigating and adapting to climate change involves investing in ecological infrastructure. Many of these types of investments have the additional benefit of being labour intensive. For example, the Transformative Riverine Management Programme (TRMP) run by eThekwini Municipality created jobs in the management of urban watercourses in ways that prevent damage to the city's culverts and bridges. It could have generated substantially more; however, the programme proved difficult to finance and scale, despite analysis suggesting its benefits exceeded its cost. As it was not expanded sufficiently, in April 2022, Durban suffered devastating floods that cost more than 400 lives and destroyed an estimated $1.5 billion in infrastructure. This is just one example illustrating that financiers might find it difficult to invest in assets that protect value rather than generate new value, but it is critically important to do so, particularly in the face of increasing climate impacts.

Place climate at the centre

African cities will become a growing market for construction materials, energy and water services, transport, and food as both population and incomes grow over the next three decades. How these cities satisfy their needs and wants will determine their economic prospects. To date, urbanisation in Africa has not been linked with a substantial expansion of manufacturing and industry, as it was during urbanisation phases in Europe and North America.

African countries should not forego their existing low-carbon advantage as they seek to build their cities and develop their industries. Effective finance will enable commercial activities that link domestic commodity value chains with the goods and services needed by growing cities. This includes financing the scaling of material re-use and recycling in construction or food processing and the provision of efficient public transport and clean energy.

The African continent also has an opportunity to make much better use of its renewable energy potential. In terms of energy sources, Africa has more than 60% of the most viable solar (10TW), hydropower (35GW), wind (110GW) and geothermal (15GW) resources available to the planet.[69] Energy projects present familiar opportunities to financiers and energy utilities, and their rapid development is necessary to support both urbanisation and industrialisation in Africa.

Conclusion

If African cities are unable to build infrastructure and extend services, the cost will be borne by the whole world. Given the limited fiscal resources available to these cities, finance has a critical role in avoiding this opportunity cost and unlocking the potential of the continent's urbanisation mega-trend. However, cities are complex systems and, to date, investments from various sources have not supported positive, systemic urban outcomes in Africa. On the contrary, the limited existing finance has tended to support piecemeal and spatially and economically incoherent projects.

Cities and countries should **continue to call for financial system reform** but also need to learn from history and not expect this process to be quick or accommodating of their needs.

Africa's cities do not operate in a vacuum, but rather are affected by the global financial architecture. For example, the growing debt burden that many national governments face will constrain how much they can borrow, which will also impact cities' ability to access capital markets. Thus, although the financing challenge with respect to African cities is commonly portrayed as a 'bankability' problem, as this analysis has highlighted, addressing it will also require some changes to the way finance is supplied.

Cities and countries should continue to call for financial system reform but also need to learn from history and not expect this process to be quick or accommodating of their needs. Instead, the challenge is to play the finance game better and to take advantage of the available options that cities can influence. This is only possible, however, if cities have the support of their national governments to enhance revenue collection and raise finance.

Cities can further support their demands for finance by advancing packaged investment opportunities supported by compelling narratives that explain why low-carbon, socially inclusive, and resource-efficient African cities are in the interests of global finance. They can also improve revenue collection and revenue sharing, improve data on their financial health, secure credit ratings, and construct longer-term infrastructure plans indicating how fiscal, donor, and financial resources will be blended to make this infrastructure creditworthy and affordable to citizens.

Lessons from Mexico and the Philippines further reveal the importance of mobilising domestic finance markets rather than looking externally. This required developing instruments, like credit ratings, that enable financiers to link domestic savings with city infrastructure.
The reforms that were undertaken in both cases enabled investors to actively see the financial health improvements cities were making, as well as to understand the available opportunities for investment. At the same time, activities to increase the supply of financing from domestic markets were also undertaken. This simultaneous approach is what created a platform for change when it came to city financing in Mexico and the Philippines as well as other countries in Latin America and Asia.

These are all reforms that are well within the reach of African countries too. Simultaneous public- and private-sector efforts targeting the supply- and demand-side of financial markets is crucial to shaping Africa's development in the run-up to 2050 and ensuring that the continent's cities are productive, liveable, and sustainable places where citizens not only live, but thrive.

Dar es Salaam, Tanzania

Annex A: Case studies of ten African cities

These city profiles aim to provide granular and context-specific insight into the demand-side constraints to subnational borrowing and investment in the African context. They have been compiled using publicly available data on the cities.[70] This reflects the information that anyone, including potential investors, interested in the city would be able to find through an initial search on information available.

Abidjan, Côte d'Ivoire

Key messages:

- Abidjan is the most economically important centre for Côte d'Ivoire as well as playing an important commercial and financial role within the West African region.
- Abidjan has identified several substantial investment opportunities that are also relatively well coordinated by the Greater Abidjan Master Plan (SDUGA), attracting both national government and external financing.
- The legal and administrative framework of Côte D'Ivoire supports Abidjan to potentially unlock more finance. This is particularly due to the country's relatively strong credit rating and its access to the West African Economic and Monetary Union (WAEMU).
- However, further work is needed for the city to improve revenue mobilisation and understand and address some of its current loan repayment challenges.

Introduction and city context

There is evidence that urbanisation in Côte d'Ivoire has been translating into economic growth. For every 1% increase in the urban population between 2000 and 2010, Côte d'Ivoire achieved about a 3% increase in GDP. Abidjan is a key driver of this and is one of the larger cities in Africa; it is currently home to about 6.3 million people and is growing at a rate of approximately 3.8% per year. Although the average incomes in the city are about four times higher than in the rest of the country, the city also has the highest level of absolute poverty in the country.

Abidjan is a regional hub for trade, commerce, and financial services and the Greater Abidjan Area is estimated to contribute nearly 60% of Côte d'Ivoire's GDP. Importantly, the national legislative framework recognises this primary role and has afforded Abidjan its own legislation and governing powers. The governor of Abidjan is appointed by the head of state and therefore the city is always politically aligned with the ruling party.

With regards to climate change, Abidjan has been ranked as one of the least resilient cities in the world. At COP 15, the government launched the five-year $1.5 billion Abidjan Legacy Programme, which is the basis for the city and the country's environmental and climate change resilience policies. By May 2022, the programme had already attracted over $1 billion in funding. However, the focus of the programme's activities is skewed towards agricultural and rural resilience, rather than mitigation and adaptation activities in urban spaces.

Macroeconomic context

Côte d'Ivoire stands as one of the continent's largest economies and a significant player within the WAEMU, contributing 40% of the union's GDP. Despite recent global economic shocks, the country has sustained remarkable resilience, with a GDP growth rate of 6.7% in 2022 and 6.2% in 2023. The African Development Bank classifies Côte d'Ivoire in the B Category as a middle-income country, which means that it is eligible for both concessional and non-concessional resources. This underscores its economic potential and importance within the region and on the continent. The country's credit ratings reflect moderate creditworthiness, pointing to stable confidence in the nation's economic and financial stability. The annual inflation rate in Côte d'Ivoire fell to 4.1% in August 2023, down from the annual average of 5.7% in 2022. The country enjoys relative political stability. 52.2% of Côte d'Ivoire's population already live in cities, highlighting the need for infrastructure development and services to meet the demands of the growing urban population.

However, the country faces a substantial budget deficit of 52.14%, putting strains on fiscal sustainability and highlighting the need for prudent fiscal management. Côte d'Ivoire also has a relatively low revenue-to-GDP ratio, standing at 15.89%, signalling room for improvement in tax collection and fiscal efficiency. Effective measures to address these fiscal challenges will be essential to maintain economic stability and support continued growth.

52.2% of Côte d'Ivoire's population already live in cities, highlighting the need for infrastructure development and services to meet the demands of the growing urban population.

Macroeconomic indicators for Côte D'Ivoire

General	GDP, billions, PPP (current international $)	202.65
	GDP growth (annual %)	6.2
	Population (millions of people)	29.12
	Urban population (millions of people)	14.338
	Urban population as % of total	52.2
AfDB	AfDB category	B
	Local currency financing available	Yes
	FCAS	No
Debt	Budget deficit (%)	52.14
	Revenue-to-GDP ratio (%)	15.89
	Debt-to-GDP ratio (%)	52.14
	Standard & Poor's	BB- (stable outlook)
	Moody's	Ba3 (stable outlook)
	Fitch	BB- (stable outlook)

Institutional and legislative environment

Côte d'Ivoire has been going through waves of decentralisation since the 1980s, which have resulted in different pieces of legislation. The most important ones include:

- In 1980, which is effectively marked as the beginning of decentralisation in Côte d'Ivoire, Law 1980-1182 established the special city status for Abidjan.
- In 2001, Law 2001-476 shifted the policy direction of decentralisation across the country, establishing five levels of decentralised local authority.
- In 2003, Law 2003-489 established the financial and fiscal regime for local authorities.
- In 2014, Law 2014-451 further defined the organisational powers of Abidjan as a city, including granting it fiscal autonomy, allowing it to enter agreements with foreign public and private bodies and establishing that it can contract loans with the permission of the ministry of economy and finance as well as the ministry of interior and security. It also notes that borrowing can only take place to cover investment expenditures.

Côte d'Ivoire has also established the Loan Fund for Local Authorities (FPCL) from which local authorities, including Abidjan, can borrow to support income-generating projects. FPCL, in turn, is a member of the Réseau des Institutions Africaines de Financement des Collectivités Locals (RIAFCO), the African network for local government financing institutions, and it holds the presidency of this network until 2024.

Budget

Although audited budget data is available for the whole government, there is no breakdown detailing Abidjan's municipal budget, making analysis difficult. This is likely attributable to the fact that the national government directly undertakes major investments within urban centres, rather than transferring the money to the city to do so.

Although it is not possible to analyse the local revenue trends specifically for Abidjan, the overall national budget shows that revenues collected (tax, non-tax, and donations) for the country have been increasing steadily since 2021, and in 2020, the actual collections were above what was budgeted for. In terms of expenditures, the budget was overspent in 2021. Much of this was attributed to COVID-19 spending, where the actual spending was 31% above what was budgeted, and security and election expenditures, where the actuals were 65% higher than what was budgeted.

The national audited budget does, however, show a breakdown of the project investment expenditure within Abidjan; in 2021 this totalled an equivalent of $390,708,178 (or roughly $65 per resident). This was weighted heavily towards transport and roads; together these sectors made up nearly 93% of all expenditures. This is in line with the priority placed by the Greater Abidjan Urban Master Plan (SDUGA) on establishing mass transit links for the city.

As noted, Abidjan can borrow to cover investment expenditure with prior authorisation from the ministry of finance and the ministry of interior and security. Abidjan has used debt financing before. For example, in 2014 the city took out a loan for about $83 million from the Banque Atlantique de Côte d'Ivoire. This was channelled through a dedicated company, PFO Africa, to undertake infrastructure works in the expansion areas of the city. The city was obligated to repay these loans through locally collected taxes.

Analysis

The major capital investments taking place in Abidjan are dominated by the projects outlined by SDUGA. One of the benefits of this is that the master plan includes an implementation framework that has attracted a substantial amount of financing to the city for transport infrastructure projects. These externally financed investments are further complemented by the national government's investments in Abidjan, which also predominantly concentrate on transport infrastructure, road maintenance, and equipment upkeep. However, even with the large volume of spending going towards these infrastructure projects, there is still significant need for further investment. In particular, understanding the spatial impact of transport links and investing around the nodes to ensure that they attract firms that bring jobs. With regards to a systemic vision for the city, it will be critical for ensuring these are also linked to affordable housing to ensure that the residents of Abidjan are well-connected to these employment opportunities as well as public services.

Given Abidjan's documented vulnerability to climate change, ensuring that these investments are climate-smart is critical. This in turn would have the additional benefit of potentially opening further avenues for climate finance. Côte d'Ivoire has one of the best credit ratings in sub-Saharan Africa. However, subnational debt is still negligible; in 2020, local debt was less than 4% of overall debt. In order to increase this, local authorities – including Abidjan – need to be supported to increase their capacity to repay as they do not yet properly honour their commitments on shorter-term loans.

Abidjan could also borrow from the West African Development Bank (BOAD), following the example of Dakar. This has a significant benefit, as BOAD can provide local West African Franc (CFA) currency lending. However, for this to happen, domestic revenue mobilisation needs to increase to ensure that such loans can be funded. Over previous years, this has been a major push across the country, including in Abidjan, as the country's overall revenue mobilisation continues to remain low compared to other countries in the region. The main push by the Côte d'Ivoire government in this respect has been to undertake specific measures to bolster system efficiency through recent reforms focused on modernising management tools.

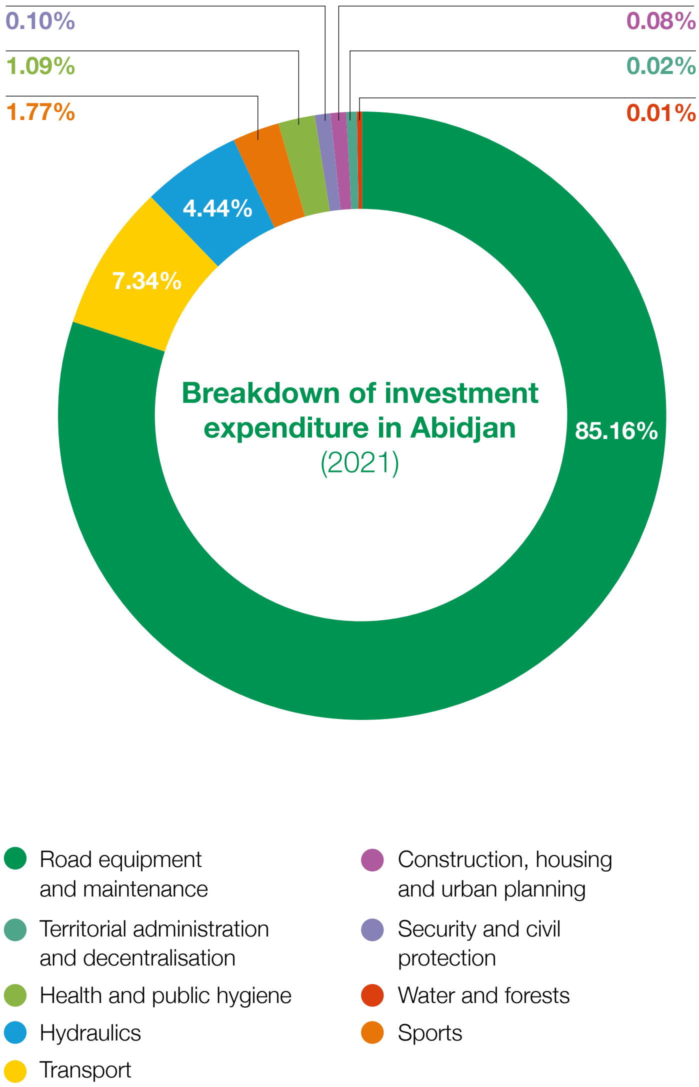


***Figure 4**: Breakdown of investment expenditure in Abidjan (2021)*

Most notably, in June 2023 the International Monetary Fund (IMF) approved a $3.5 billion support package for the country with a key component focused on reforming domestic revenue mobilisation. The interventions, which have included technological improvements, have positively impacted revenue collection overall. However, the potential for further improvement is still significant, and, according to the IMF, will ultimately also require revisions to tax policy.

Addis Ababa, Ethiopia

Key messages:

- Due to Ethiopia's federal model of government, Addis Ababa has a lot of fiscal powers as a city and is fully self-reliant on its own revenue generation for funds.
- All borrowing currently goes through the Government of the Federal Democratic Republic of Ethiopia and is targeted at well-prepared, high-impact projects.
- Even without this provision, direct financing for Addis Ababa would be limited by the shallow local financial markets in Ethiopia.
- Addis Ababa is also one of the only cities in Africa that has undergone a full Public Expenditure and Financial Accountability (PEFA) assessment with support from the World Bank.
- Therefore, there is detailed analysis that provides Addis Ababa with detailed recommendations on how to improve its financial management.

Introduction and city context

Although Ethiopia is one of the least urbanised countries in Africa, its cities, especially Addis Ababa, are growing rapidly. In 2022, the Ethiopian Statistical Service estimated that Addis Ababa was already home to nearly 4 million people. Addis Ababa contributes 38% of Ethiopia's GDP and employs 15% of the workforce. The city's economy is primarily dominated by the services sector, making up an estimated 63% of the economy. However, most of these services are in the informal sector and are not currently generating much productivity.

Macroeconomic context

Over the last decade, Ethiopia's economy has been marked by robust economic growth, making it one of the largest and fastest growing on the continent. The country's annual GDP growth rate of 5.3% reflects steady economic expansion. Ethiopia is in the African Development Bank's A Category and is therefore eligible for concessional resources. This categorisation also indicates its potential as an emerging economy. The country has ambitious development plans, such as the 'Homegrown Economic Reform Program', which aims to liberalise key sectors, attract foreign investment, and promote industrialisation. Inflation in Ethiopia reached 37.7% in May 2022, the highest rate in a decade. This was exacerbated by episodes of political instability and the rapid deprecation of the Birr.

Despite the urbanisation trend, Ethiopia still has a relatively small proportion of the population living in towns and cities (23%), which poses unique challenges for infrastructure development and service delivery. The country also faces limitations in local currency financing, including no local currency financing available from the African Development Bank, which can impact fiscal flexibility. The credit ratings from Standard & Poor's, Moody's, and Fitch paint a less favourable credit environment with negative outlooks. Another notable issue is the negative budget deficit of -4.2%, suggesting prudent fiscal management. However, the low revenue-to-GDP ratio of 8.5% and a debt-to-GDP ratio of 31.4% indicate room for improvement in revenue collection and the management of public debt. Political stability and effective implementation of economic reforms will continue to shape the country's overall economic outlook.

Over the last decade, Ethiopia's economy has been marked by robust economic growth, making it one of the **largest and fastest growing on the continent.**

Macroeconomic indicators for Ethiopia

General	GDP, billions, PPP (current international $)	393.3
	GDP growth (annual %)	6.1
	Population (millions of people)	105.75
	Urban population (millions of people)	27.959
	Urban population as % of total	23
AfDB	AfDB category	A
	Local currency financing available	No
	FCAS	No
Debt	Budget deficit (%)	-4.2
	Revenue-to-GDP ratio (%)	8.5
	Debt-to-GDP ratio (%)	31.4
	Standard & Poor's	CCC (negative outlook)
	Moody's	Caa2 (negative outlook)
	Fitch	CCC (negative outlook)

Institutional and legislative environment

As Ethiopia is a federal country, subnational governments are granted clear executive and fiscal functions. This means that Ethiopia's constitution is the main law governing the subnational fiscal framework and their financial expenditures. For example, the constitution stipulates that Addis Ababa has a power of self-administration. To further bolster this, Law No. 361/2003, which is the law governing Addis Ababa, was issued to detail the terms of the city's governance.

In terms of borrowing, Article 39 of Proclamation No. 156/2010 notes that both state and regional governments are allowed to borrow domestically. However, all borrowing must be approved by the federal government in recognition of the fact that debt impacts future generations. The projects that loans are taken out for are therefore subject to rigorous project preparation as well as monitoring and evaluation of implementation. Further, any borrowing that happens must be for projects that will positively impact economic growth.

Budget

The city government is a self-financed entity, which does not receive transfers from the federal government apart from the Federal Road Fund, which provides a specific grant for the maintenance and construction of roads. The budget for the city has increased from about $1.9 billion in 2020 to $2.6 billion in 2023, above the rate of population growth. The city's revenues have also been steadily increasing, with a slight dip in 2021 likely attributable to the COVID-19 pandemic. The city has taken out between $50-60 million in loans each year between 2020 and 2023, except in 2022 where this grew to about $94 million.

The highest expenditure categories for fiscal year 2020 and fiscal year 2021 were economic expenditures, followed by social expenditures. Unlike in many other cities, spending on administration and general service is only the third-highest expenditure overall; in 2021 this only made up about 23% of overall budget expenditures. Within economic expenditures, construction was the top expenditure both in 2020 and 2023.[71] Water and sewerage, as well as natural resource expenditures, also feature in the top economic expenditures across both years.

Most investment projects in Addis Ababa are financed directly through the city's budget. In the case of large infrastructure projects, these loans tend to be taken by the federal government and then on-lent or on-granted to the city. One example of this is the light rail project in Addis Ababa, which was financed through the Chinese government. The city is also currently expanding its bus rapid transit (BRT) lane with loan support from the French Development Agency.

Analysis

Ethiopia's constitution establishes a strong legislative framework within which subnational entities have the authority to manage their public resources. Furthermore, Addis Abba has extra powers as a city and is fully self-financing. This puts it in a strong position to take decisions to direct its urban growth and ensure that it translates into economic activity and liveability. One area that Addis Ababa does not have sufficient control of is the coordination of development partner activity, which is done at a federal level.

As noted, Addis Ababa is one of the only African cities that has undergone a World Bank PEFA assessment and has done so three times already, in 2010, 2015 and 2019. Therefore, the opportunities and challenges of public financial management (PFM) have been thoroughly analysed. Although World Bank PFM reform programmes have been initiated at the national level, to date, no Addis-specific financial management reform programme has been undertaken to address the issues the PEFA assessments have identified. Understanding the reasons for this is key because many of the major weaknesses identified with respect to the city's budget analysis have been the same across all the PEFA review periods, indicating they have not been addressed. This, however, also provides an important opportunity to design a city-specific reform programme to help address these in the future.

Some of the important findings with respect to Addis Ababa's financial management identified by the PEFA include:

- Improving medium-term planning to better align the budget and the strategic vision is key. One important way to do this is to ensure that both processes happen on the same cycle. Currently the medium-term budgeting happens on a three-year cycle yet strategic planning happens on a five-year cycle. Furthermore, the PEFA recommends subjecting public investment plans and decisions to more public consultation.

Addis Ababa - Total Budget 2020-2023

Year	Total (USD)	Per capita (USD)
2020	1,917,206,919.22	496.69
2021	1,798,682,006.31	465.98
2022	2,306,818,709.72	597.62
2023	2,614,940,355.34	677.45

Addis Ababa - Total Revenue 2020-2023
(millions of USD)

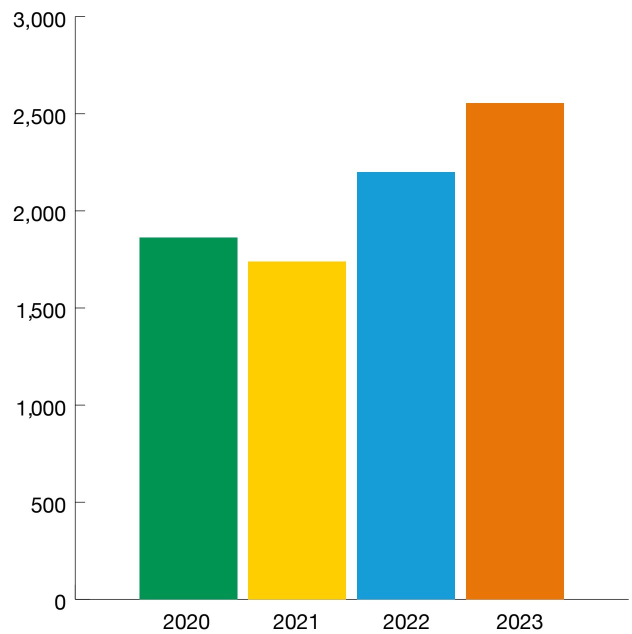


***Figure 5**: Addis Ababa Budget and Revenue 2020-2023*

- Revenue and expenditures are always below what was budgeted, leaving a budget surplus in most years. This is coupled with a high variation in terms of budgets issued at the beginning of the year and the line items that are subsequently spent. These variations between budgeted and actuals have been between 69% and 79% indicating a lot of movement between line items. Although these extensive reallocations are all approved and therefore permitted by the legislature, it raises questions as to whether the spending of the budget reflects the city's objectives or rather short-term allocations. It also undermines overall fiscal discipline.

- Although Addis Ababa has some loans, there is currently no debt management strategy at the city level. This also means that there is no monitoring of contingent liabilities. If Addis Ababa does aim to expand its financing through loans, this will be important to address from the outset.

- The PEFA notes that the selection of investment projects undergoes rigorous analysis, including economic cost-benefit analysis, and through this a pipeline of investment projects is produced. Ultimately, however, only about 30% of the projects receiving investment were the ones that should have been picked based on the selection criteria. This again indicates potential strong political biases when it comes to investment project selection. This is coupled with the fact that the procurement process is opaque; the basic legal information and overall bid opportunities are released publicly, but the selection process is not. The challenges in these processes mean that ultimately some of the investments perform poorly. This is also exacerbated by the fact that little systematic monitoring and performance information is collected, particularly with respect to service delivery.

- Like with many cities in Africa, there is room to improve Addis Ababa's asset management; currently there is a fixed asset register that is only maintained at the federal level.

- Addis Ababa's revenue authority collects good data and collection happens within the confines of the relevant laws. However, arrears in revenue collection are still relatively high. For example, in 2017/18 revenue arrears were 10.4% overall and 7.3% of those were over 12 months overdue.

In addition to the findings from the PEFA, it is important to note that the African Development Bank does not provide local currency financing in Ethiopian Birr. Furthermore, it is unlikely that Ethiopia's financial market will provide sufficient financing opportunities given Addis Ababa's investment needs. This is because it is a very shallow market, which is much less developed than other financial markets in the region, primarily due to the monetary and foreign exchange framework that the Ethiopian government was operating until very recently. Although this is set to change under the government's Growth Transformation Plan, which is aimed at easing the private sector constraints and opening the economic and financial sectors, these reforms are still at the outset.

Addis Ababa, Ethiopia

Algiers, Algeria

Key messages:

- Algeria's economy has, to date, been highly dependent on oil and gas revenues. This has meant it has not taken on external finance. Given the country's aim to diversify away from the hydrocarbon sector, it is now working with the International Monetary Fund (IMF) to potentially borrow in the future, including obtaining a sovereign credit rating.
- There are major decentralisation reforms planned in Algeria based on the new constitution of 2020. However, these are still very much at the outset and currently Algiers and other Algerian cities do not have substantial fiscal powers. They remain dependent on the central government for most of their fiscal and expenditure decisions.
- Although there is a sizeable investment budget allocated to Algiers, implementation is extremely low, with budget execution rates often below 40% and with major delays.

Introduction and city context

Algeria is a highly urbanised country, with 74.77% of the population living in cities as of 2022. Algiers, the capital, has an estimated population of 4.51 million people. The city is divided into 57 municipalities and serves as the economic hub for the country. The main economic areas are trade, transportation, industry, wholesale of non-durable goods, and food manufacturing. Algeria's economy has been dominated by oil and gas revenues, which in the past years have been highly volatile. As such there are current reform programmes underway to accelerate growth in the non-hydrocarbon sector. The urgency of these reforms has increased particularly since the COVID-19 pandemic.

Macroeconomic context

Algeria's macroeconomic context presents a picture of a large economy on the continent with a strategic regional position. This makes it an influential player in regional geopolitics and trade in North Africa. The economy has shown a stable but moderate growth trajectory marked by an annual GDP growth rate of 3.4% in 2021. The country's relatively high urbanisation level indicate that it is a predominantly urbanised society, which can have implications for infrastructure and service provision.

Algeria is categorised under the African Development Bank's C Category, qualifying it to access the Bank's non-concessional resources. The country does not have local currency financing options, and this could have implications for fiscal flexibility. Algeria's unique macroeconomic trends include its heavy reliance on hydrocarbon exports, particularly natural gas and oil, which make it vulnerable to fluctuations in global energy prices.

Algeria has a modest budget deficit of 2.2%, indicating sound fiscal management and potential for further borrowing. The revenue-to-GDP ratio of 29.91% indicates a relatively healthy level of revenue collection, while the debt-to-GDP ratio of 62.99% suggests a moderately high level of public debt, which requires careful management to ensure long-term fiscal sustainability. Effective management of public debt and continued efforts to expand non-hydrocarbon sectors will be vital for Algeria's long-term economic resilience.

The economy has shown a stable but moderate growth trajectory marked by an annual GDP **growth rate of 3.4% in 2021.**

Macroeconomic indicators for Algeria

General	GDP, billions, PPP (current international $)	628.99
	GDP growth (annual %)	3.8
	Population (millions of people)	45.98
	Urban population (millions of people)	32.807
	Urban population as % of total	74.3
AfDB	AfDB category	C
	Local currency financing available	No
	FCAS	No
Debt	Budget deficit (%)	2.2
	Revenue-to-GDP ratio (%)	29.91
	Debt-to-GDP ratio (%)	62.99
	Standard & Poor's	None
	Moody's	None
	Fitch	None

Institutional and legislative environment

Algeria has been a highly centralised country since its independence; however, the process of decentralisation was started in the 1980s. The new constitution, promulgated in 2020, further aspires towards decentralised structures. For example, it has emphasised the role of municipalities as becoming financially independent. However, to date, the country's fiscal structures remain highly centralised and only the central government has the power to create and levy taxes. Further, although local budgets are voted on at a local level, they still require final approval by the ministry of finance and the ministry of interior and local authorities. The central government also oversees and approves the budget of the states, including Algiers, through the General Directorate of the Budget (DGB). Most of the investment is also done by the central government through municipal development and sectoral development plans. However, the project management of the implementation is overseen at a municipality level.

The legal framework underpinning the central government's transfers is anchored in the Executive Decree 14-116 of 2014, which established the Solidarity and Guarantee Fund for Local Authorities (CSGCL). Like other local authorities, Algiers receives transfers through this fund, which is managed by a steering council, chaired by the minister of the interior. The CSGCL channels proceeds from Algeria's main sources of revenue, including hydrocarbons and mining, to the local authorities. The same executive decree also granted local authorities more fiscal authority, particularly with regards to select municipalities. It further defined the relationships between the state and the local authorities based on the principles of decentralisation.

Algiers' resources mainly come from these transfers, local taxation, and non-tax revenue. In general, revenues are guided by the finance law and various codes, including the direct tax code and the indirect tax code. Specifically, the composition of local taxation is made up of four main taxes totalling 98% of local revenue. These are the tax on professional activity (58%), the value added tax (35%), the car vignette (2.7%), and the single flat-rate tax (2%). In addition, the city receives 100% of revenues collected from property tax on built and un-built properties, garbage collection tax, residence tax, special license tax on real estate, and advertisement and tourist tax. While the city collects other local taxes, it shares these revenues with the central government.

Budget

Although national accounts are available for Algeria, there are no individual publicly available audited accounts for Algiers. Some budget information can be gleaned from budget announcements published in the media. For example, in 2023 it was announced that the budget for Algiers grew by about 15.5% between 2019 and 2020 and then fell by 12.44% by 2023. The media also highlighted that the majority of the 2019 budget (~64%) was allocated to investment spending. However, execution was low: only 32% of budgeted spending for the municipal development plan that year was realised.

As noted, the majority of the city's revenues are allocated by the central government. In 2023, the forecasts estimate that about 51% of these will be generated by local taxes in Algiers and the rest will be from the redistribution of central taxes. In general, Algiers generates an estimated 69% of all taxes for Algeria. Between 2008 and 2017, Algiers spent only, on average, 38% of the total funds that had been mobilised for its budget. In this period, over 25% of projects that had been planned were fully cancelled. The audit report from 2020 notes that, on average, projects in Algiers are delayed by an average of five years from the completion of the feasibility study to the overall start of the project. This is due to several factors, including poor project management and a lack of technical staff at the municipal level to oversee project execution.

Algiers has borrowed from domestic markets; however, its credit history is largely defined by defaults, which the central government has paid. For example, in 2022, Algiers borrowed and the central government paid off a considerable share of the approximately 18.8 billion Algerian Dinar (DA) of debt.

Analysis

In Algeria, the decentralisation process is underway, but to date cities, including Algiers, do not have substantial fiscal powers. According to the new constitution, this is set to change; however, timelines for implementation are unclear. As there are few national audit reports available that clearly highlight the challenges with regards to project execution in the Algerian context and there is no independently audited budget for Algiers as a city, information can only be gleaned from media reports. Ensuring that the city's budget information is easily and widely accessible will be critical to attract new finance.

As noted, project execution remains a major constraint across all the municipalities of Algiers. A sizeable investment budget is allocated to Algiers, yet implementation is low at budget execution rates below 40% and with major delays. This may be due, in part, to the structure of projects being conceived at a national level and implemented at a local level. As the audit reports highlight, human resource capacity is not sufficient at the municipality level, where the projects are managed. A further factor is the administrative process, which causes significant delays between when the projects are approved and when they can start. This is an area where improvements can be made.

Algeria as a country has never issued an international sovereign bond and currently does not have the capacity to do so, in part because it does not have a sovereign credit rating. Although this makes it one of the least indebted countries globally, it also indicates its very limited international financial integration. Algeria has also not received much lending from the African Development Bank. In 2016, the Bank provided Algeria a €900 million budget support loan. This was the first loan to Algeria in 12 years. The IMF is currently working with the national government to support them to tap into international financial markets, but this will require time and preparation.

Domestic borrowing is a possibility for Algiers, however, and domestic debt makes up approximately 20% of GDP. As noted, while Algiers has borrowed, it has often failed to make repayments of its debt, which has required the central government to step in. Although the sources of these failures would have to be further analysed, it will be important to address this in order to attract additional finance. This may include the need to establish or strengthen the borrowing framework as well as other fiscal reforms.

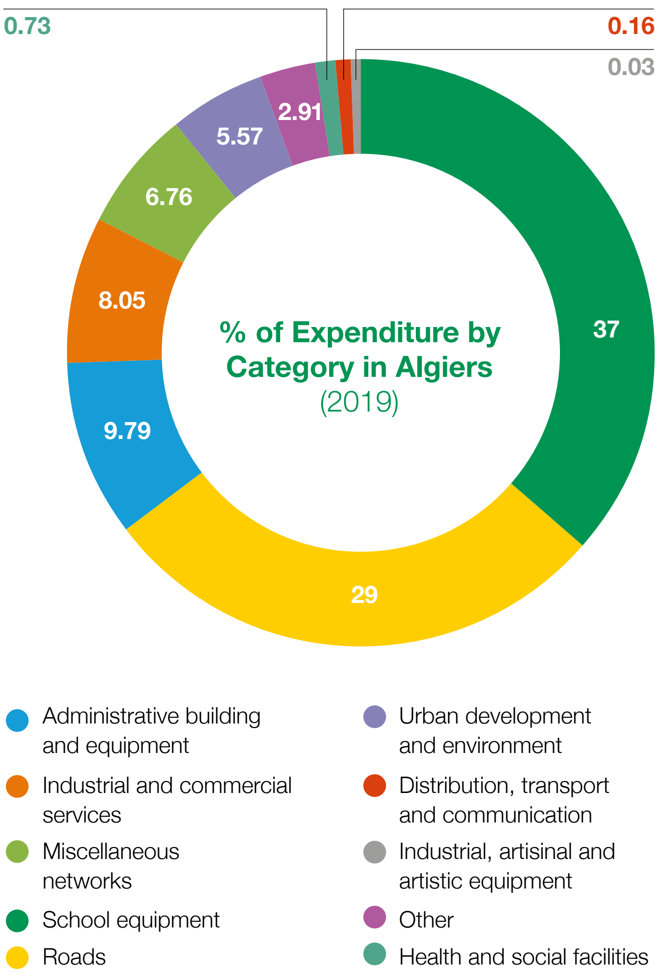


Figure 6: Sector allocation of Algiers Capital Budget

Other sources of local currency borrowing also exist, including through the Algiers Stock Exchange, which is regulated by the ministry of finance. The stock exchange was established in 1993 and launched in 1999. It has four listed companies with a capitalisation of about $110 million (15 billion DA) and has issued six corporate bonds to the public to date, of which four have expired. However, the stock exchange also requires reform to increase the quality and quantity of funds, upgrade its information system, and update its regulatory framework to reflect international standards.

As highlighted, Algeria is highly dependent on hydrocarbons and therefore vulnerable to oil and gas price fluctuations. An oil stabilisation fund was a key source of financing but in recent years has nearly been completely depleted of international reserves, draining the liquidity from the banking sector. As it is not a sovereign wealth fund, once it is depleted there will be no liquid assets to finance future deficits and the banking system will be less able to absorb new government borrowing.

Cape Town, South Africa

Key messages:

- Cape Town has invested in finance personnel and processes and sought to make itself a viable investment destination.
- The city operates within South Africa's constitutional framework, which allows local governments to borrow money to support their capital budget, provided the municipality has a good audit standing as determined by the auditor general and an independent credit rating agency.
- Cape Town's borrowing is strategy-driven, not finance-driven. All capital expenditure is appraised by three distinct city departments for its ability to expand the revenue base, cut costs, and support economic growth.
- Cape Town is financially conservative with a credit rating of AA, well above the national rating, and considerable headroom for further borrowing in terms of national treasury guidelines. Despite this, the city reports difficulties in raising finance.

Introduction and city context

South Africa's oldest and second most populous city, Cape Town consists of the City of Cape Town Metropolitan Municipality, composed of 115 wards and with a population of 4.6 million in 2020. Since 2006, it has been governed by an opposition party to the ruling party in the country. The next local government elections are scheduled for 2026.

Cape Town's GDP per capita was $5,905 in 2019 and the city contributes roughly 10% to South Africa's GDP and is home to 7.5% of the country's population. Cape Town's 27% unemployment rate, which includes discouraged job seekers, was significantly below the South African average of 43% in the fourth quarter of 2022. Cape Town is often described as a highly unequal city with an estimated Gini co-efficient of 0.63. As in other South African cities, spatial inequality is increasingly linked to type of employment, such as professional, labourer or unemployed.

Macroeconomic context

South Africa's macroeconomic context is characterised by opportunities to be leveraged and structural challenges to confronted. With a GDP of approximately 997.444 billion (PPP), it stands as one of Africa's largest economies. The nation's GDP growth rate of 0.9% indicates a moderately positive trajectory, though this growth might not be sufficient to address its pressing socioeconomic challenges. The population is sizable, exceeding 59 million, with about 68% residing in urban areas.

The African Development Bank classifies South Africa as a Category C country, signifying a middle-income status and making it eligible for both concessional and non-concessional resources. It benefits from some of the deepest local financial markets in Africa and therefore has several local currency financing options, which can stimulate economic activities. Debt-related indicators portray a concerning scenario. South Africa has a budget deficit of -4.49% and a debt-to-GDP ratio of 68.98%, highlighting fiscal pressures. Despite this, the revenue-to-GDP ratio of 26.94% indicates efforts to generate government income.

In terms of credit ratings, South Africa's ratings from agencies like Standard & Poor's (BB-), Moody's (Ba2), and Fitch (BB-) reflect its moderate creditworthiness. These ratings influence its ability to secure international financing and the cost of servicing its debt. Additionally, the country's unique macroeconomic trends include persistent issues like high unemployment, income inequality, and structural challenges in key sectors, such as mining and agriculture. Moreover, its regional position as a major economic player in southern Africa carries both opportunities and responsibilities in terms of regional economic integration and stability. Addressing these challenges and leveraging its economic strengths are pivotal for South Africa's sustainable development.

The nation's **GDP growth rate of 0.9%** indicates a moderately positive trajectory, though this growth might not be sufficient to address its pressing socioeconomic challenges.

Macroeconomic indicators for South Africa

General	GDP, billions, PPP (current international $)	997.444
	GDP growth (annual %)	0.9
	Population (millions of people)	61.53
	Urban population (millions of people)	40.295
	Urban population as % of total	67.8
AfDB	AfDB category	C
	Local currency financing available	Yes
	FCAS	No
Debt	Budget deficit (%)	-4.49
	Revenue-to-GDP ratio (%)	26.94
	Debt-to-GDP ratio (%)	68.98
	Standard & Poor's	BB-
	Moody's	Ba2
	Fitch	BB-

Institutional and legislative environment

Cape Town has been governed by South Africa's official opposition since 2006 and has invested in finance personnel and processes and sought to make itself a viable investment destination as part of its political project. The city operates within South Africa's constitutional framework, which allows local governments to borrow money to support their capital budget, provided the municipality has a good audit standing as determined by the auditor general and an independent credit rating agency.

Cape Town's borrowing is strategy driven, not finance driven. The city administration released a ten-year infrastructure investment plan with a clear list of what it intends to build and the fiscal gap that requires financing to roll out this plan. All capital expenditure must expand the revenue base, cut costs, or support economic growth, which is appraised by three distinct departments.

As in all South African local governments, both income and expenditure are managed via a three-year investment framework – the Medium-Term Revenue and Expenditure Framework (MTREF), in which only the current year is absolute. Cape Town's 2023/24 MTREF indicated that the capital budget will target four critical areas, each with a detailed breakdown of items and corresponding budget:

i. Ending electricity load-shedding over three years
ii. Making Cape Town safer.
iii. Dignified water and sanitation and cleaner waterways.
iv. Doing the basics better.

Budget

Cape Town's budget was $3.7 billion in 2023/24, of which $3.1 billion was for operational costs and about $600 million was for capital. Staff salaries comprise 25.5% of the total budget. The next largest operational cost (20.1%) was for electricity purchases, on which the city has historically made a $266 million profit through resales.

The record 2023/24 capital budget (the 'Building Hope Budget') forms part of the incumbent mayor's infrastructure-led growth strategy and is carefully allocated to listed activities in the $7.8 billion ten-year infrastructure strategy launched in 2023. The 2023/24 capital budget is financed through borrowing ($346 million), transfers from the national government ($149 million), and internally generated revenue on existing capital ($91 million). The total budget amounts to just $130 per person per year.

Excluding capital transfers from the national government, the city expects to generate $3.1 billion in revenue in 2023/24. The largest contributors to this revenue are electricity sales (33.4%); property rates (20.4%); operating transfers, grants, and subsidies from other spheres of government (11.6%); and water sales (7.5%). By South African metro standards, Cape Town has a relatively low uncollected debt (rates, levies, and tariffs) amount of $138 million.

Analysis

Municipalities represent an autonomous sphere of government in South Africa, and financial regulation ensures that they take responsibility for their own borrowing without national government underwriting. Any South African municipality seeking debt finance must, however, have its finances approved by the auditor general, acquire a credit rating from an independent credit rating institution, and submit a disclosure statement signed by the city manager. By law, the disclosure statement must be supported by independent legal and financial opinions and stipulate the interest rate and absolute amount of interest paid and the default clauses associated with any debt. Typically, the same auditor general supplies the financial opinion.

In 2022/23 Cape Town's debt comprised of 73% bonds and 27% loans, all indexed in South African Rand (ZAR) and at fixed rates. The city's short-term debt has risen from 6% to 20% of total direct debt between 2021/2022 and fiscal year 2022/23, due to the need to repay existing bonds.

Cape Town has made considerable investments in its ability to raise finance effectively and has a long-term credit rating of AA from Moody's, which described the city's credit position in 2023 as, "consistently strong and improving operating and financial performance". Historically, the city's debt has been predominantly (73%) bond financed. However, to finance its infrastructure investment plan, the city is currently focusing on sustainability-linked concessionary lending to avoid the administrative burden of bond issuance. Currently the city has a $389 million bond

Infrastructure investment by service category 2022 to 2031 (funding in rand billions)

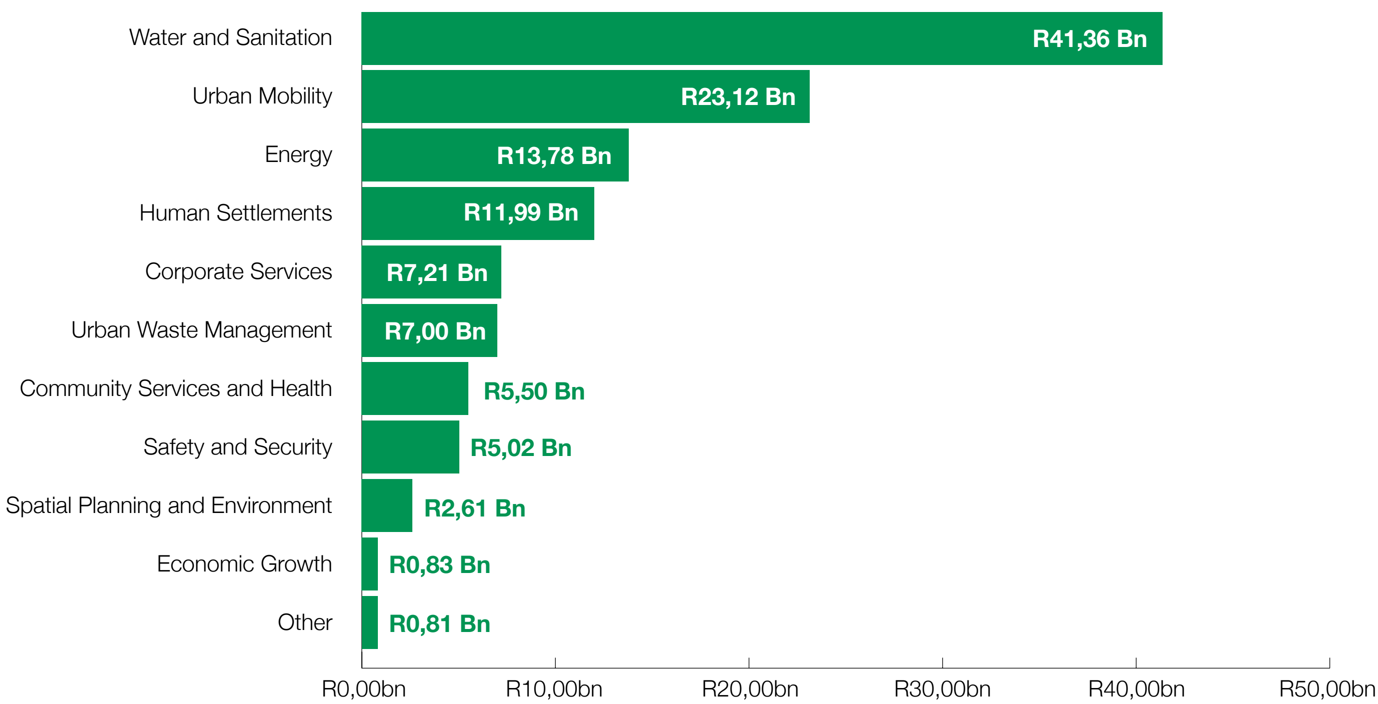


***Figure 7**: Earmarked Infrastructure Investment 2022-2031 in Cape Town*

facility and has issued bonds of $289 million from this. In 2017, Cape Town issued a $55 million, ten-year hybrid at the fixed rate of 10.17%. The bond was used to refinance projects that were in the city's existing budget.

Central to this strategy has been the appointment of senior officials in three complementary but distinct city directorates: (i) Future Planning and Resilience, which is responsible for identifying and conceptualising suitable projects; (ii) Corporate Project, Programme and Portfolio Management in the Corporate Services directorate, which is responsible for making sure capital projects and their maintenance are integrated into operational plans and appropriately managed in order to avoid unfunded maintenance and operation; and (iii) the City of Cape Town's treasury, which is responsible for ensuring that infrastructure projects are appropriately financed by a team that operates under the city's chief financial officer. The three directorates comprise a gate committee through which all investments have to pass, and which is used to ensure projects are aligned to the city's long-term strategy, financed, and maintained. All of Cape Town's infrastructure investments must contribute to at least one of 'cost cutting', 'economic growth', or 'revenue expansion'.

In February 2023, the city's mayor released a $7.8 billion, ten-year Infrastructure Investment Plan. As part of this, the city's infrastructure budget will increase by 110% over three years. Across the water and sanitation, urban mobility, energy, human settlements, and waste management themes, the plan aims to "ensure that the right infrastructure gets built, in the right locations and at the right time, in order to meet future demand".

Local governments in South Africa are not allowed to run deficit budgets, but the Municipal Finance Management Act (56 of 2004), coupled with the national treasury's Municipal Borrowing Framework, does permit the financing of capital expenditure, property acquisitions, and equipment. Cape Town's ten-year Infrastructure Investment Plan says very little about borrowing. The city currently uses a combination of debt (19%), grants (30%), and own-source revenue (51%) to finance its capital spending programme, and the gap between planned investment and available revenue in the Infrastructure Strategy will be filled by borrowing. Under the national treasury's guidelines, local governments' borrowing should not exceed 45% of their revenue, and repayments of debts (interest and capital) should not exceed 8% of their operating revenue. Against these guidelines, Cape Town still has considerable headroom to borrow. In 2022, the city's debt was just 14.1% of its revenue, and interest payments were just 1.6% of its operating revenue.

Cape Town has an external financing facility that it uses to take on loans or bonds to finance infrastructure. This facility has secured a domestic medium-term note of $380 million, and to date has issued four bonds with a value of $28 million against this note, all of which are listed on the Johannesburg Stock Exchange (JSE). In line with treasury guidelines, all bonds operate a 'sinking fund', which requires the city to set aside money annually for bond repayment rather than waiting until the bond matures. The latest bond issuance from Cape Town involved a $5 million, ten-year green bond issued in 2017 at the fixed rate of 10.17%. This was 0.38% cheaper than a nationally issued conventional bond on the same day (i.e., there was a small discount for being green) but 0.25% more expensive than concessionary finance accessed by the city in the same year. As per national treasury guidelines, the bond was structured to have a sinking debt financing obligation. The green bond investment was used to displace existing budget allocations for reducing water losses through infrastructure maintenance, flood defences, sea and beach defences, and energy efficiency.

In conversation, city officials concede that the green bond was extremely important in supporting the release of Cape Town's Climate Change Policy in 2017 (which became a Climate Change Action Plan in 2021), solidifying the city's partnership with the C40 Cities Climate Leadership Group (C40) and generating positive publicity. From a narrow financial perspective, however, the green bond was considered a lot of work for a very small discount, and the city intends to access sustainability-linked loans for future borrowing. The city's institutionalised financing capacity places it in a strong position to explore different financing options.

Cape Town, South Africa

Dakar, Senegal

Key messages:

- With respect to its balance sheet and other associated factors, Dakar is probably one of the few cities that would be able to borrow directly from the African Development Bank under the conditions outlined in the subnational finance guidelines.
- Dakar has regularly borrowed both from the regional West African Development Bank (BOAD) and from other international financial institutions.
- Given that it has a climate finance plan in place and is a member of C40 Cities, it also has the distinct opportunity to explore various climate finance options.
- The main challenge Dakar faces in terms of expanding its access to finance is less on the technical side and more on the political side.

Introduction and city context

Dakar, the capital of Senegal, is a city of nearly 3.5 million people, which is growing at a rate of 3.13%. It is a powerful economic hub, not only for Senegal, where the city generates approximately 55% of the country's GDP, but also within the region. The mayor of Dakar, who is elected by the Commune of Dakar, is often in political opposition to the national ruling party and has sometimes limited cooperation around economic and financing policies between the city and the national government. This is an important consideration for engagement with the city, given the next round of elections in Senegal are coming up in 2024.

In 2015, Dakar was set to become one of the first African cities outside South Africa to float a municipal bond. It had undertaken all the relevant preparation and the bond itself was going to finance market infrastructure. However, shortly before the bond was to be floated, the national government stepped in noting that the city had not obtained all the relevant signoffs for the bond. This failed launch has potentially impacted Dakar's ability to float a bond soon.

Macroeconomic context

Senegal's macroeconomic context reflects a nation with steady economic growth and notable economic potential. With a GDP of $78.547 billion (PPP), it is one of the emerging economies in West Africa. The annual GDP growth rate of 4.1% signifies robust economic expansion, driven by diversification efforts and investment in key sectors. Senegal's total population includes a substantial urban population of over 8 million, accounting for 48.6%. This urbanisation trend poses both opportunities and challenges, such as the need for infrastructure development to support the growing urban population. Senegal is categorised as a Category B country by the African Development Bank, giving it access to both concessionary and non-concessional Bank resources. Importantly, Senegal has access to local currency financing, which enhances both fiscal and credit market flexibilities. The country boasts a stable credit rating and a stable political environment. The budget deficit is notably negative at -6.13%, reflecting prudent fiscal management.

However, the revenue-to-GDP ratio of 19.44% indicates room for improvement in revenue collection. Senegal's debt-to-GDP ratio stands at 73.16%, suggesting a relatively high level of public debt that requires careful management. Given the country's strategic position as a regional trade and transport hub in West Africa, Senegal serves as a gateway for landlocked countries in the region and benefits from the expanding opportunities in the Economic Community of West African States (ECOWAS) market.

Senegal's macroeconomic context reflects a nation with steady economic growth and notable economic potential. **With a GDP of $78.547 billion (PPP), it is one of the emerging economies** in West Africa.

Macroeconomic indicators for Senegal

General	GDP, billions, PPP (current international $)	78.547
	GDP growth (annual %)	4.1
	Population (millions of people)	18.162
	Urban population (millions of people)	8.202
	Urban population as % of total	48.6
AfDB	AfDB category	B
	Local currency financing available	Yes
	FCAS	No
Debt	Budget deficit (%)	-6.13
	Revenue-to-GDP ratio (%)	19.44
	Debt-to-GDP ratio (%)	73.16
	Standard & Poor's	B+ (stable)
	Moody's	Ba3 (stable)
	Fitch	B- (stable)

Institutional and legislative environment

The 1996 Decentralisation Law and the 1996 Local Government Code established the decentralisation framework for Senegal and outline competencies for the local level. Following this, in 2013, the General Local Government Code, also known as the Decentralisation Act III, aimed to organise Senegal into territories that are viable, competitive, and conducive to promoting sustainable development. To do this, Act III highlighted that communes and departments, the subnational government structures in Senegal, should have sufficient resources to deliver their responsibilities.

In practice, however, decentralisation of funding has not yet happened. Rather, there is a national unit under the ministry of finance, called the Directorate General of Taxes and Domains, which is responsible for the financial management of Dakar and other communes. Thus, in practice, the national government has control over all revenue streams, including their collection, management, and spending. Importantly, however, although revenue management is done by the national government on behalf of commune, local revenues should be remitted in full to the level of government responsible for them. For example, Dakar maintains some control over smaller revenue streams such as market fees, but it still must remit this to the national treasury as the city cannot have its own bank account, unless co-signed by the national government.

These revenues are then meant to be remitted back to Dakar for the city's use. Apart from the locally collected revenues which should be remitted at 100% of the value, the other transfers from the central government are allocated via a formula, with a strong equalisation component. Annually the national government should advance the commune 25% of its budget and the rest should be transferred with the actuals based on local revenue collection.

Importantly, local governments can also enter private sector partnerships worth up to 33% of the share of the asset. In 2012, to support increasing private investment, the government established two state guarantee funds, the Priority Investment Guarantee Fund and the Sovereign Investment Support Fund.

Budget

Dakar's revenues were growing until the Decentralisation Law Act III was implemented in 2015. The implementation of this act resulted in the expansion of the number of communes within Dakar, both impacting the operational costs of running the city and splitting the revenue base amongst a larger number of smaller administrative entities. Thus, the revenues during this year fell and only managed to fully rebound by 2020 when they reached about $111 million again. As noted, one of the main constraints the city faces in raising revenue further is that the national government still has control over all finances and therefore the city has little control over how much money it can raise. The city does have autonomy over external funds, including those from development partners and from private donations.

Across Senegal, local government expenditure, including that of the city of Dakar, only constitutes 1% of GDP and 4% of public spending overall. Based on the 2020 budget, the highest portion of the operational budget, 34.5%, was allocated to staffing the mayor's office and secretariat. Most of the investment spending – nearly 70% – was allocated to roads.

In Senegal, local authorities are allowed to borrow both publicly and privately from the local and international markets. However, to do so, projected locally generated revenues need to cover both the operating expenditures and outstanding debt. Given the strength of Dakar's balance sheet, coupled with the fact that it has a credit rating, it has successfully borrowed from, and repaid, a variety of different investors including development partners and banks, as highlighted in **Figure 8**.

Analysis

Although Dakar's attempt to float a municipal bond in 2015 did not succeed, the work that was put into it substantially strengthened Dakar's overall creditworthiness, ultimately helping it achieve its credit rating. This was supported by the systems reform and dedicated staff capacity development that were undertaken based on the needs highlighted by the Public Expenditure and Financial Accountability (PEFA) assessment. The work the city has put into strengthening its financial health is reflected both in the growing revenues and the diversity of concessionary and commercial loans it has been able to take on since then. This is particularly noteworthy given the country's incomplete decentralisation, which significantly constrains how Dakar can manage its own finances.

The municipal bond preparation process was also supported by a strong regional currency market and in particular the Abidjan-based regional securities exchange. This provides significant opportunities for Dakar and potentially other cities that also operate within the West Africa Economic and Monetary Union and should be further explored. Another area of untapped potential for Dakar is with respect to climate finance; to date, it has not successfully borrowed to finance its climate action plans. While it has attempted to put together a project for the Green Climate Fund, it again faced challenges coordinating with the national government, which must lead on these approaches.

Dakar is one of the cities that is most likely to be able to borrow from the African Development Bank under the subnational financing guidelines, and this would be an important demonstration case. However, the failed municipal bond launch also provides a cautionary tale. It highlights how failures like this can shake investor confidence for a significant period afterwards. This is particularly pertinent given Senegal's upcoming election and growing opposition to the ruling party which is likely to increase the perceived risk of investments in the city.

Therefore, to unlock additional finance, including climate finance, there needs to be stronger coordination and buy-in from the national government. Clarifications are also needed on debt legislation and the different mechanisms, including loans and bonds that are available to the city, and under what conditions. This clarification needs to be codified in such a way that provides an enabling environment for the city's ability to raise finance.

Institutions	Amount Borrowed	Projects	Maturity	Interest Rate
French Development Agency	12 million USD	Public Lighting	20 years	2.21%
Islamic Bank of Senegal	4 million USD	Traffic Lights	2 years	9%
West African Development Bank	18 million USD	Secondary Roads and Parking	13 years (3 years deferred)	5.50%
Ecobank	7 million USD	Shopping Mall	5 years (2 years deferred)	8.84%
West African Development Bank	50 million USD	Urban Roads and Utilities for Diamniadio	-	-

***Figure 8**: Examples of borrowing undertaken by Dakar*

Dar es Salaam, Tanzania

Key messages:

- Local governments in Tanzania remain fiscally and legislatively weak, complicating the task of delivering the type of urban infrastructure that meets people's needs and catalyses economic development.
- Centralisation of revenue collection (most obviously property taxes in 2016) deprived local governments of a valuable source of own-source revenue. Dependence on unreliable national transfers makes infrastructure finance difficult for Dar es Salaam City Council, but Tanzania is investing in enhanced and streamlined local revenue collection, which will assist local authorities.
- Local governments can only borrow for capital projects through the Local Governments Loan Board, which has done little to extend finance for infrastructure and service delivery.
- There is scope for re-financing some of Dar es Salaam's mega-infrastructure projects with more transparent and conventional finance if existing bilateral arrangements become untenable.
- A fiscal commission capable of ensuring more reliable, less politicised transfers from the national government is essential to enable Dar es Salaam (and other cities in Tanzania) to leverage fiscal transfers to access finance.

Introduction and city context

Dar es Salaam is not Tanzania's capital but is the country's largest city by a significant margin and is responsible for at least 40% of the country's GDP. The city council comprises Dar es Salaam itself and five neighbouring municipalities. In 2022, a census put the city council population at 5.4 million. Unplanned human settlements – land that is settled before it has been surveyed and provided with bulk infrastructure – are a feature of the city, and the exact population and city council boundary are contested.

Tanzania has the sixth highest urbanisation rate in the world (estimated at 5.2%). The country adopted a decentralisation by devolution (DbyD) policy in 1996, which was followed by a Local Government Reform Programme. A degree of administrative decentralisation has taken place, but the major fiscal and regulatory trend since 2015 has been one of centralisation. From 2015 onwards, key ministries were brought into the president's office and centralised the collection of property taxes, citing concerns about local government corruption. The trend was supported by a raft of smaller interventions, including the centralised appointment of teachers and the granting of responsibility for urban infrastructure to national agencies for roads, water, telecoms, and electricity.

Macroeconomic context

Tanzania's macroeconomic context is characterised by a GDP of approximately $227.725 billion (PPP), making it one of the most significant economies in East Africa. The GDP growth rate of 4% in 2022 suggests a stable but somewhat modest economic expansion. With a population exceeding 63 million, of which 36% live in urban areas, the country faces challenges related to urbanisation and infrastructure development. Figures reported by the National Bureau of Statistics suggest that Dar es Salaam's economy has grown at roughly double the national rate over the past decade, and that average per capita income in Dar es Salaam is roughly 50% higher than for the country.

Tanzania's categorisation by the African Development Bank is as a Category A country, eligible to access concessional Bank resources. Debt-related indicators for Tanzania are relatively favourable compared to some other African nations. The budget deficit stands at -3.28%, indicating prudent fiscal management. The debt-to-GDP ratio is 40.3%, suggesting a manageable level of public debt. Revenue collection is Tanzania's fiscal weakness, with government revenues as a proportion of GDP persistently between 9% and 15% over the past decade. The country does manage to spend over 30% of its fiscus on capital projects.

Credit ratings from Moody's (B2) and Fitch (B+) place Tanzania in the lower-medium risk category. These ratings influence its ability to access international financing. The country's macroeconomic trends also include a growing tourism sector, substantial natural resources, and recent efforts to industrialise and diversify the economy. It is a member of the East African Community (EAC), with opportunities for regional trade and cooperation. Balancing economic growth with social development remains a priority for Tanzania's sustainable development.

Tanzania's macroeconomic context is characterised by a **GDP of approximately $227.725 billion (PPP)**, making it one of the most significant economies in East Africa.

Macroeconomic indicators for Tanzania

General	GDP, billions, PPP (current international $)	227.725
	GDP growth (annual %)	5.2
	Population (millions of people)	63.343
	Urban population (millions of people)	22.862
	Urban population as % of total	36
AfDB	AfDB category	A
	Local currency financing available	Yes
	FCAS	No
Debt	Budget deficit (%)	-3.28
	Revenue-to-GDP ratio (%)	14.42
	Debt-to-GDP ratio (%)	40.3
	Standard & Poor's	N/A
	Moody's	B2
	Fitch	B+

Institutional and legislative environment

Dar es Salaam's city council has a complex structure and multiple responsibilities. While the city council has an organogram that is designed to coordinate national ministries and utilities, this local coordination has proven difficult as centralised ministries pursue their own plans.

Fiscal centralisation has increased since 2003 through a variety of reforms:

- Abolishment of the Development Levy (Poll Tax) in 2003, which had been paid by every person above the age of 18 to their local authority.
- Removal of a number of local taxes deemed a nuisance in 2004, which were paid to local government authorities.
- Centralisation of property tax collection in 2016, ostensibly as a means to countering corruption. This removed the major source of local government revenue and has been associated with a reduction in property tax collection.

Dar es Salaam's updated Master Plan (2016-2036) was released by the ministry of lands in 2018 with the intention of making Dar es Salaam "a sustainable, competitive and people centred city, predicated on optimal utilization of resources and conservation of the natural environment". This plan replaces one that had been developed in 1979 and envisages settling 7.5 million new residents in Dar es Salaam by 2036. It places emphasis on transit-oriented development in corridors along the five major transport routes out of the city. However, centrally coordinated provision of services to rapidly growing urban populations has proven unable to keep pace with demand. For example, central budget allocations have lacked spatial and developmental coordination.

Subnational budget data is rarely published and difficult to come by in Tanzania. Although local government authorities in Tanzania are administratively decentralised, they remain dependent on the central government for their budget and have limited influence on capital allocations from respective national ministries and utilities. Given the lack of data, Dar es Salaam's capacity for loan finance is also not clear. Furthermore, Dar es Salaam may only borrow money through Tanzania's Local Government Loan Board. Only East Africans can purchase Tanzanian bonds, severely restricting the country's access to the bond market. Nationally, much of the infrastructure investment that does take place is financed by the 266 state-owned enterprises (SOEs). The finances of Tanzania's SOEs are not revealed publicly, however.

Budget

Dar es Salaam is unusual in the Tanzanian context in that it generates 40% of its budget from own-source revenue, the highest of all local governments in Tanzania. In 2019, the total capital budget available to the Dar es Salaam city council (including donor grants) was $23.7 per capita for the year.

Dar es Salaam city council's main source of revenue is from ministry of finance and planning transfers for recurrent (operating) expenditure (roughly 50% of revenue); own-source revenue (roughly 38%); Ministry of Finance and Planning (8% of revenue); transfers from ministries and their agencies, including for roads, electricity, and water (2.5%); and donor transfers (2%).

Across Tanzania, cities have experienced difficulties in securing budgeted funding from the central government and in anticipating the timing of payments. Between 2013 and 2017, Dar es Salaam received just 38% of what it requested from the central government, on average.

Local revenue collection remains inadequate, particularly in the absence of property tax revenues for the city. Despite the abolition of 'nuisance taxes' in 2004, Dar es Salaam is still responsible for many low-yielding, difficult-to-collect revenues, including land survey fees, business and professional licences, vehicle licences, guest house levies, billboard levies, stray animal fines, and fish landing fees. None of these sources of revenue provide Dar es Salaam with the fiscal influence required to shape the development of the city. Strengthening existing (mostly donor funded) efforts to assist local governments in Tanzania to collect local revenue, including property taxes, will be crucial for providing predictable revenue and increasing cities' access to finance.

One study estimated a potential $9 million in untapped 'willingness to pay' from Dar es Salaam citizens, provided they could be confident that the money would be invested in improved services. However, Dar es Salaam city council, as with other local government authorities in Tanzania, has struggled to marshal the activities and investments of respective ministries and their utilities into a systematic investment approach.

Analysis

Tanzania has bilateral investment agreements with 19 countries and has used these to construct infrastructure. Much of Tanzania's recent economic activity has been focussed on the East African Crude Oil Pipeline (EACOP). This fossil-fuel based economic growth is risky. Dar es Salaam has an important role to play in providing a counter-weight to this strategy. This can be done by providing a more diversified form of economic growth based on the human capital among Tanzania's economically active population driving urbanisation, finance, trade, tourism, agriculture, and manufacturing sector opportunities. All these opportunities require improved infrastructure and services, and, most critically, a more reliable supply of electricity in order to enable value-addition.

Dar es Salaam's BRT system (DART), the first phase of which cost $290 million and was financed by the World Bank, commenced service in 2016 and now transports up to 200,000 commuters a day. This has significantly reduced congestion and enhanced commuter convenience. However, it has not yet enabled transit-oriented development or land value capture along the transit routes due to the absence of a supporting land and infrastructure policy. The second phase of the project is now under construction, and finance is said to be secure for the first five phases. The World Bank, the African Development Bank, and the government of Tanzania are among the listed financiers.

Other bilateral deals between the national government and a host of supporting countries have delivered mega-infrastructure projects. The city is also home to a range of development agencies and an active World Bank programme. Despite this, budget uncertainty has made it difficult for the city council to compile a costed and spatially coordinated infrastructure plan of its own design. Instead, what exists is a list of projects in the city's master plan and a piecemeal set of nationally financed mega-infrastructure investments.

Examples include freeway flyovers, a bridge linking the CBD to the peninsula, a new airport, and an elevated rapid rail system each represent impressive infrastructure projects in their own right but have been delivered in the absence of a coherent spatial, infrastructural, or socioeconomic development plan. The reality is that government departments have had very little influence over the spatial growth of the city and the Master Plan is not linked to a fiscal strategy that could marshal resources in support of its implementation.

eThekwini, South Africa

Key messages:

- The annual budget is predominantly funded from own-source revenue, but 87% of the budget is used for operations rather than new capital projects.
- In 2020/21, the eThekwini Municipality approved a bond facility for $550 million: the eThekwini Metropolitan Municipality Domestic Medium Term Note Programme (DMNT).
- The first two bond notes under this facility were issued in 2022 – one for $27.7 million over ten years, which pays out 10.91% interest, and the second for $27.7 million over 15 years, which pays out 12.22% interest. The debt is 'senior', 'unsecured', and 'unsubordinated'.
- eThekwini Municipality is financially conservative, with a credit rating of AA. There is a financial case for increasing the municipality's borrowing to address the acute need for critical infrastructure and services, climate resilience, and a just energy transition.
- A poor track record in implementing large-scale infrastructure projects and over $770 million in uncollected debts from households and other public entities undermines the case for additional borrowing.

Introduction and city context

The eThekwini Municipality is South Africa's third largest economic centre, and the Port of Durban is reported to be Africa's busiest and largest container port. The municipality has a population of 3.9 million and comprises rural, urban, and peri-urban human settlements. Despite GDP per capita of $8,460 (2019), a busy port, a tourism coastline, and a range of manufacturing activities, poverty remains the lived reality for 2.1 million of eThekwini Municipality residents who live on less than $68 per person per month. 16.8% of the population has no education and only 5.8% of the population has a higher education qualification. The City of Durban falls within the eThekwini Metropolitan Municipality and is governed by the ruling party.

Within South Africa, eThekwini Municipality has been a climate change pioneer, leading programmes that counter the region's risk of coastal storm surge, flooding, and heat stress with support from Local Governments for Sustainability (ICLEI), C40, and the Rockefeller Foundation. However, very few of these projects have proceeded beyond the policy phase.

Macroeconomic context

South Africa's macroeconomic context is characterised by opportunities to be leveraged and structural challenges to be confronted. With a GDP of approximately 997.444 billion (PPP), it stands as one of Africa's largest economies. The nation's GDP growth rate of 0.9% indicates a moderately positive trajectory, though this growth might not be sufficient to address its pressing socioeconomic challenges. The population is sizable, exceeding 59 million, with about 68% residing in urban areas.

The African Development Bank classifies South Africa as a Category C country, signifying a middle-income status and making it eligible for both concessional and non-concessional resources. It benefits from some of the deepest local financial markets in Africa and therefore has several local currency financing options, which can stimulate economic activities. Debt-related indicators portray a concerning scenario. South Africa has a budget deficit of -4.49% and a debt-to-GDP ratio of 68.98%, highlighting fiscal pressures. Despite this, the revenue-to-GDP ratio of 26.94% indicates efforts to generate government income.

In terms of credit ratings, South Africa's ratings from agencies like Standard & Poor's (BB-), Moody's (Ba2), and Fitch (BB-) reflect its moderate creditworthiness. These ratings influence its ability to secure international financing and the cost of servicing its debt. Additionally, the country's unique macroeconomic trends include persistent issues like high unemployment, income inequality, and structural challenges in key sectors, such as mining and agriculture. Moreover, its regional position as a major economic player in southern Africa carries both opportunities and responsibilities in terms of regional economic integration and stability. Addressing these challenges and leveraging its economic strengths are pivotal for South Africa's sustainable development.

South Africa's macroeconomic context is characterised by opportunities to be leveraged and structural challenges to confronted. With a GDP of approximately **$997.444 billion (PPP), it stands as one of Africa's largest economies.**

Macroeconomic indicators for South Africa

General	GDP, billions, PPP (current international $)	997.444
	GDP growth (annual %)	0.9
	Population (millions of people)	61.53
	Urban population (millions of people)	40.295
	Urban population as % of total	67.8
AfDB	AfDB category	C
	Local currency financing available	Yes
	FCAS	No
Debt	Budget deficit (%)	-4.49
	Revenue-to-GDP ratio (%)	26.94
	Debt-to-GDP ratio (%)	68.98
	Standard & Poor's	BB-
	Moody's	Ba2
	Fitch	BB-

Institutional and legislative environment

South Africa has a robust legal framework that allows local governments to borrow money to support their capital budget, provided the municipality has a good audit standing as determined by the auditor general, and a credit rating by an independent company. Historically eThekwini Municipality has borrowed modestly from commercial and development finance institutions.

Local governments in South Africa are not allowed to run deficit budgets, but the Municipal Finance Management Act (56 of 2004), coupled with national treasury's Municipal Borrowing Framework, does permit borrowing to finance capital expenditure, property acquisitions, and equipment. Until 1989, South Africa's Apartheid government 'prescribed assets' that ensured a portion of the country's pension fund and savings money had to be allocated to government bonds. Without this 'prescription', debt finance to local governments went into decline between 1990 and 2010 but is being revived.

Municipalities in South Africa also have the option of entering public-private partnerships in which they play a 'regulator' role, and a private sector partner builds and operates an infrastructure off-balance sheet and budget for the local government. Provinces have used public-private partnerships with some success in the roads, water, and social housing sectors, but municipalities less so.

Metropolitan municipalities, including eThekwini, in South Africa have wide-ranging development responsibilities under the country's constitution. For eThekwini Municipality, acute service delivery backlogs, a relatively small capital budget, urbanisation, and the requirement to invest in electricity security and climate change resilience, create the need for more investment in infrastructure than is available from the capital budget, which puts a spotlight on financing options.

Municipalities represent an autonomous sphere of government in South Africa, and financial regulation ensures that they take responsibility for their own finances without national government underwriting. Any South African municipality seeking debt finance must, however, have its finances approved by the auditor general, acquire a credit rating from an independent credit rating institution, and submit a disclosure statement signed by the city manager. By law, the disclosure statement must be supported by independent legal and financial opinions and stipulate the interest rate and absolute amount of interest paid and the default clauses associated with any debt. Typically, the same auditor general supplies the financial opinion.

Budget

eThekwini Metropolitan Municipality's budget of $3.03 billion in 2021/22 was made up of $2.61 billion operating expenses and $0.4 billion capital budget for new infrastructure investment. The budget is funded by a combination of transfers from national and provincial government (10.1%); own-source revenue from electricity sales, water, and sanitation tariffs, solid waste management tariffs, and property taxes (71.8%); and other sources (interest, rentals, fines and permits) for the balance. Households are billed monthly for rates and services. eThekwini Municipality is permitted to raise property rates based on Section 8 of the Local Government: Municipal Property Rates Tax (6 of 2004) and the Local Government: Municipal Finance Management Act (56 of 2003) and is allowed to charge different rates for different types of property (agricultural, industrial, residential, vacant, etc.). eThekwini Municipality's bylaws allow for additional levies for special ratings areas and offer rebates for property holders that create jobs, build Green Building Council Certified buildings or invest in priority spaces.

In the 2021/22 financial year, two thirds of the capital budget – $295 million – was funded by national and provincial grants, while $27.7 million of the capital budget came from own-source revenue. Transfers from national to local government take place under South Africa's Equitable Share of National Revenue Allocated to Local Government legislation, published by the national treasury in 1998. The transfers are overseen by the Finance and Fiscal Commission, to ensure their independence from political interference.

As in all South African local governments, both income and expenditure are managed via a three-year investment framework – the Medium-Term Revenue and Expenditure Framework (MTREF) in which only the current year is absolute. eThekwini Municipality's 2021/22 MTREF indicated that the capital budget will target the area's infrastructure and basic services deficits, but it remains to be seen if it can address these deficits.

Income	**% of total revenue**
Grants and subsidies (national and provincial government)	10.1
Property rates	21.6
Service charges	50.2
Fines, licenses, permits	0.2
Rental and facilities and equipment	1.7
Interest on investments	0.5
Fuel levy	6.8
Other income	8.9

***Figure 9**: Sources of budget income - eThekwini Municipality 2021/22*

The capital budget for 2021/22 amounted to just $102 per person per year. A combination of population growth and in-migration, combined with weak infrastructure management, has seen infrastructure and services backlogs remain high, despite the spending of the annual capital budget. According to the municipality's Integrated Development Plan, half a million households continue live in informal structures, 187,751 households do not have access to piped water, 296,130 households do not have reticulated sanitation, and 368,048 households (32%) do not have electricity in their dwelling.

In 2023, South Africa's auditor general reprimanded the eThekwini Municipality for high levels of 'irregular' and 'unaccountable' expenditure, unspent budget by some departments, and total expenditure exceeding revenue in the three years prior to 2022.

Analysis

eThekwini Municipality initially relied on long- and short-term loans from commercial banks and the Development Bank of South Africa to boost its capital budget. In the 2020/21 financial year, eThekwini's total debt amounted to $500 million, of which $4 million was short-term debt. This made for a conservative debt-to-asset ratio (13%) and debt-to-own-revenue-ratio (28%). At the end of June 2021, the municipality had cash reserves of $300 million. There were, however, concerns about the concentrated sources of debt to the municipality, and in 2020, the eThekwini Council approved the municipality's Domestic Medium-Term Note (DMTN) Programme, which allows it to source up to $550 million in debt or bond finance. This facility was intended to raise additional finance for infrastructure projects and diversify the sources of this finance away from the traditional commercial banks and development finance institutions to include pension funds, as buyers of municipal bonds. The DMTN Programme was registered on the Johannesburg Stock Exchange (JSE) in September 2020, and the JSE serves as the bond issuer.

Use of the facility must be approved annually by the eThekwini Municipality Council and remain within the national treasury's guidelines under which all borrowing should not exceed 45% of total revenue and repayments of debts (interest and capital) should not exceed 8% of total operating revenue. In practice eThekwini Municipality's gearing came down from 34.8% to 21.6% between 2015 and 2021, and debt servicing costs have come down from 6.7% to 3.8% of revenue. Falling interest rates over this period have seen interest payments as a percentage of revenue fall from 3.3% in 2015 to 1.9% in 2021.

In June 2022, eThekwini Municipality issued two bond notes under the DMTN facility to boost the municipality's capital budget. The bond was comprised of:

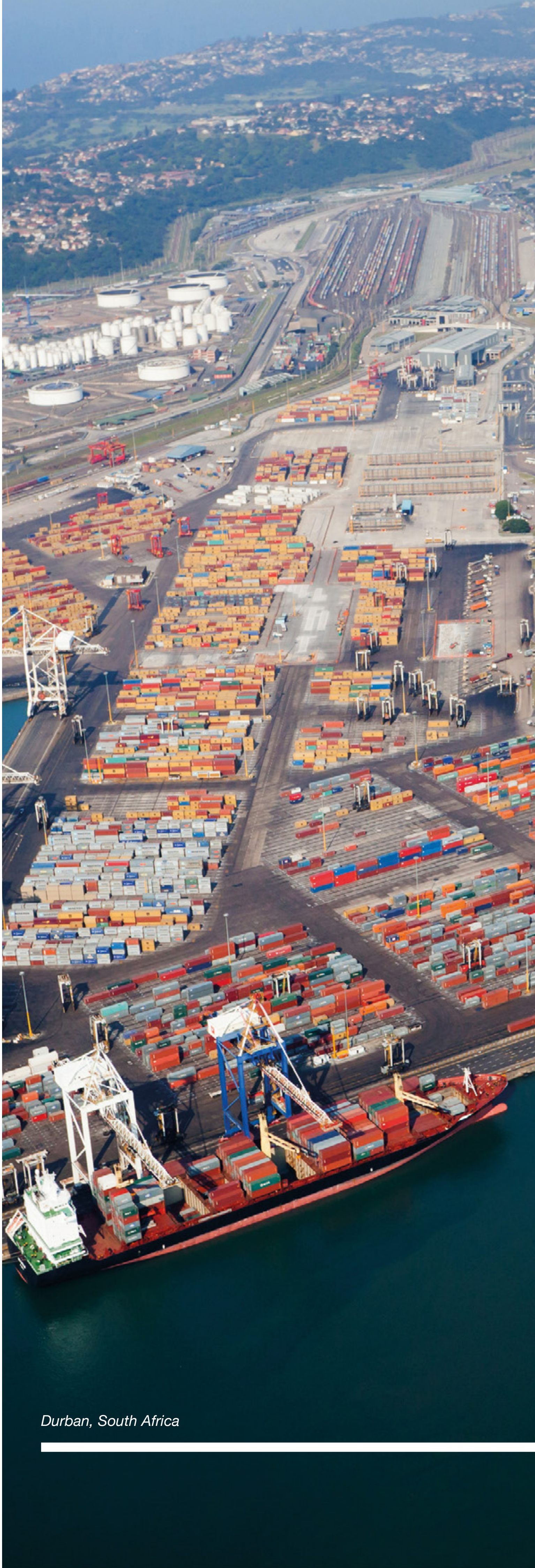
- A ten-year note for $27.7 million at a rate of 10.91%.
- A 15-year note for $27.7 million at a rate of 12.22%.

Collectively the notes boosted the capital budget by 17%.The debt is listed as 'senior', 'unsecured', and 'unsubordinated', giving creditors high preference in the event of an insolvency. Bi-annual repayment of the bond must take place in accordance with a schedule.

As with most metropolitan municipalities in South Africa, the financial management of eThekwini Municipality remains conservative and prudent despite political instability. The municipality retains cash reserves of 60-90 days ($300 million in 2021), a credit rating of AA (down-graded from AA+ in May 2023), and a debt gearing below the national treasury's threshold of 45% - 55%. Unlike the City of Cape Town in South Africa, the eThekwini Municipality has not yet issued a green bond or a climate bond.

In terms of conventional financial metrics, eThekwini Municipality's borrowing from the debt market have been within a robust regulatory environment and the municipality is arguably 'under-borrowed' given the critical need for basic infrastructure and services and the humanitarian burden that this imposes. There is also an opportunity and a need for all municipalities in South Africa to invest in electricity generation capacity to reduce the local economic development impact of South Africa's failing national utility. The scope for greater access to municipal debt by eThekwini Municipality is further supported by the country's relatively sophisticated financial sector, which has the capacity for over-the-counter and exchange-based trading, as well as the clearing and settlement procedures required to support a functional debt market.

However, when the debt is associated with unpaid services, which the municipality refers to as ‘collection challenges’, is counted, the situation becomes more tenuous. In December 2021, this debt stood at $7.8 million, taking the municipality’s total debt to $9.8 million and debt-to-asset ratio to 25.4%. In 2021, the average delay in paying the municipality’s creditors was 88 days, which was well above the 30-day target. The growing challenges in collecting rates and tariffs in difficult economic circumstances are among the factors making it risky for eThekwini Municipality to borrow more. This is compounded by difficulties in implementing large infrastructure projects and a general reluctance to put timeframes to the construction of these projects. This leads to some of the grants provided by the national government being handed back each year despite the acute need for more investment. In downgrading the municipality to AA in May 2023, the Gross Cash Recovery (GCR) Ratings, cited ‘service delivery failures’ as the primary reason.



Durban, South Africa

Kinshasa, Democratic Republic of the Congo

Key messages:

- The Democratic Republic of the Congo (DRC) is classified as a fragile and conflict-affected state (FCAS). The political risk is currently heightened with elections taking place in December 2023, which also affects cities like Kinshasa.
- Kinshasa, although economically the strongest province in the DRC, has faced a downward and unstable trend with respect to revenue generation, especially after the COVID-19 pandemic. The share of capital expenditure is decreasing while staff expenditures are high and increasing.
- A list of priority investments is submitted for consideration to the national government on an annual basis, but to date there have been no multi-year investment plans. Further, only a few of the budgets that are submitted are executed and these are done substantially over budget.
- The Kinshasa Urban Development Unit was recently launched to help develop and pursue a strategic planning process for the city and to better link this to investment planning and financing, but the unit is still significantly underresourced.

Introduction and city context

Kinshasa is an already densely populated city located on the Congo River with an estimated 14 million inhabitants, making it the third largest city in Africa. It is growing rapidly at an estimated rate of 5.1% annually. Although it is economically the strongest province in the DRC, it also has the highest number of people – approximately 9 million – who are living in poverty, which has been exacerbated by the pandemic. Access to services is declining in the city; in 2018, only about 72% of residents had access to piped water, 55% had access to sanitation, and 44% had access to electricity. Unemployment and underemployment are high, with 83% of the workforce in the city employed in the, mostly informal, non-tradeable service sector.

Politically, Kinshasa is an opposition stronghold within the DRC. Coupled with the fact that the DRC is classified as an FCAS country due to several episodes of unrest and civil war in the past decade, this has led to underinvestment in infrastructure and services. This has further contributed to the economic decline of the city and is compounded by weak governance and institutional structures. The lack of urban planning in the city has also heightened Kinshasa's vulnerability to the impacts of climate change.

Macroeconomic context

The DRC presents a complex macroeconomic context. With a GDP of $27.99 billion (PPP), it is one of the largest economies in Africa, bolstered by its vast natural resources. The annual GDP growth rate of 8.92% reflects a rapidly expanding economy. The country has a substantial urban population, accounting for 46.84% of its total population. The high urbanisation rate of 5.1% underscores the importance of urban development and service provision.

The African Development Bank classifies the DRC as a Category A country, indicating its ability to tap into concessional resources and its significant economic potential. Nonetheless, the absence of local currency financing options limits fiscal flexibility. Additionally, the DRC is classified as an FCAS country, highlighting ongoing security and governance challenges that impact the nation's stability and economic development.

The DRC's budget deficit stands at a relatively manageable 2.7%, indicating a cautious approach to fiscal management. However, the revenue-to-GDP ratio of 15.6% suggests the need to enhance revenue collection. The debt-to-GDP ratio is relatively low at 14.6%, and this reflects positively on debt management. The country's challenge lies in effectively harnessing and managing its resources to promote inclusive growth and development. The DRC's regional position is significant, given its central location in Africa and its potential to serve as a transport and trade hub within the continent. Additionally, ongoing efforts to improve governance, address security concerns, and promote economic diversification are essential to unlock the country's full economic potential.

The DRC presents a complex macroeconomic context. With a GDP of $27.99 billion (PPP), it is **one of the largest economies in Central Africa**, bolstered by its vast natural resources.

Macroeconomic indicators for Democratic Republic of the Congo

General	GDP, billions, PPP (current international $)	27.99
	GDP growth (annual %)	4
	Population (millions of people)	99,95
	Urban population (millions of people)	46.373
	Urban population as % of total	46.84
AfDB	AfDB category	A
	Local currency financing available	No
	FCAS	Yes
Debt	Budget deficit (%)	2.7
	Revenue-to-GDP ratio (%)	15.6
	Debt-to-GDP ratio (%)	14.6
	Standard & Poor's	B- (stable outlook)
	Moody's	Caa2 (stable outlook)
	Fitch	CCC+

Institutional and legislative environment

The 2005 constitution established the 25 provinces and Kinshasa, as the capital city, affording it special city-province status. Decentralisation is a central feature of this constitution, with a particular focus on revenue sharing. For example, there is a proviso that all the provinces, including Kinshasa, should receive a 40% share of national revenues. The ministry of budget is then meant to weight the distribution of this 40% share based on how much the province has contributed to the economy as well as its population. However, the actual calculation is untransparent.

In addition to this, there is a National Equalisation Fund replenished with 10% of revenues generated by the provinces and the central government, which provinces can apply to use for investment projects. In 2021, the fund received 858 applications but only 13 – including four in Kinshasa – received funding.

The Public Finance Law 2011 establishes overall transfers and taxes, as well as a premise for borrowing. Annually, a finance law is passed by the national ministry of finance, which establishes the overall budget envelope for the country for that year. The provincial budgets, including for the city of Kinshasa, are consolidated within this. In general, revenues are divided as follows:

- Central government taxes: Public finance income, companies, personal, customs, and import/export.
- Central and province shared taxes: Consumption, mining, environment, planning, water, and forestry.
- Provinces: Property tax, local income tax, motor vehicles, and administrative revenues.

In terms of borrowing, Section 15 of the Public Finance Law 2011 stipulates that government (central and province) can borrow, but it must not be an amount greater than their investments. Further provisos include that borrowing can only take place from national non-bank financial institutions in local currency and can only be done for capital projects. This makes Kinshasa ineligible to borrow under the African Development Bank's subnational financing guidelines both given that it is a multilateral development bank and that local currency finance is not available.

Each province has a ministry of finance, led by a minister appointed by the governor of a province, who themselves is elected by a provincial assembly. Under their auspices, there is a dedicated provincial tax administration, which in Kinshasa is called the Direction Générale des Recettes du Kinshasa. The national government sends the transfers from national budget to the provincial government, which are then allocated to the different ministries, and complemented by local revenue collected by the provincial-level tax authorities.

In 2019, the Cellule de Developpement Urbaine du Kinshasa (Kinshasa Urban Development Unit) was established as the coordinating unit for planning and investment in Kinshasa. This was also done with the view to establishing a multi-year planning and investment process. The unit is still understaffed and not operating at full capacity. However, it has assumed the role of project coordination unit for some donor projects, notably the $500 million World Bank funded Kinshasa Multisector Development Urban Resilience Project (Kin Elenda).

Budget

Kinshasa is one of the only provinces that has relatively regularly provided its audited accounts to the national auditor. As such, a more detailed analysis of its budget data over the recent years is possible.

The DRC as a country has low revenue mobilisation due to the reliance on natural resources. In addition, tax policies, legal frameworks, and institutional systems and processes are ineffective. In Kinshasa specifically, revenue collection has been unstable and on a significant downward trend since 2016. This is both because transfers are often substantially lower than planned, at an average transfer rate of 5.3%, and are received much later than expected. This is in a context where the overall transfer value to provinces is only 0.1% of GDP.

The second major factor is that own-source revenue is significantly underperforming. Between 2011 and 2016, the collection of own-source revenue was stagnant and at low absolute levels. Then between 2019 and 2020, due to COVID-19, there was an up to 70% decline in own-source revenue month-to-month. The main source of local revenue for Kinshasa are property-related taxes. In 2017, 72% of local revenue was generated by rental income tax and a further 11% by property tax.

One of the main weaknesses in the city budget is the execution rate and the fact that the share of capital expenditure is decreasing. In 2022, recurrent expenditure made up 68% of the city's budget, with the vast majority of this going to staffing expenses. There was a sharp increase in staffing expenses between 2016 and 2017, and it has remained very high since. Part of the challenge, as noted previously, is that the investment budget remains underfinanced; in 2022, only four of the capital investment projects in Kinshasa received approval and therefore financing from the central government. In their execution, however, there were substantial cost overruns by over 2000% on average.

Analysis

Capital spending by all provinces, including Kinshasa, is very low, comprising about 0.8% of the DRC's overall GDP. There have been various internal audit analyses as well as external analyses of the causes of this, which have come up with the following two root causes:

- The operational budget crowds out the investment budget because of high spending requirements on civil service. As noted, although the 2005 constitution has decentralisation as a central tenant and provides for the transfer of competencies and human resources to the provinces and regular elections of subnational authorities, implementation of these provisions lag. As such, much of the staffing at the city level comprises seconded civil service from the national government, which is then supplemented by consultants because the provinces are not yet able to hire many of their own staff directly. This in turn drives operational costs up substantially.
- There are no publicly documented investment plans, and, as such, project investment decisions are made on an annual basis and must receive approval by the national government. This is a lengthy process, as the law requires that investment projects across all levels of government must be harmonised, but there is a lack of coordination between the different levels of government. This is coupled with low (in terms of absolute value) and unpredictable national transfers for investments from the National Equalisation Fund, which means that investments are not realised.

Of the projects that are funded, poor execution poses an additional challenge. For example, the four projects that Kinshasa received investment funding from national government for in 2022 had an average cost overrun of 2059% from what was budgeted. This is a strong indication that the plans and budgets were not adequately prepared. However, other causes have been identified including ineffective and untransparent procurement processes as well as political intervention during execution.

As noted, to try and improve the investment planning and implementation process, the city recently established the Kinshasa Urban Development Unit. The aim is to move the city from relying on annually produced lists of investments to multi-year stable investment planning. This will be important for fostering predictability and attracting financing for the city's projects. However, the unit is still under-capacitated in staffing and other resources.

A further challenge with respect to Kinshasa's municipal finances is the low and declining revenue mobilisation. In part this is a challenge across the DRC and emblematic of a country that has high dependency on mineral wealth. However, this is further exacerbated by inadequate tax policies and legal frameworks as well as inefficient and outdated revenue collection processes.

Kisumu, Kenya

Key messages:

- Kisumu County, through Kenya's devolved structure, has an opportunity to borrow to finance its infrastructure investments and has received a credit rating since 2020. It also has the possibility of floating a bond on the Nairobi Stock Exchange, which would enable access to local currency financing.
- However, the main challenge preventing Kisumu from doing so is its own financials and, in particular, low own-source revenue generation.
- Furthermore, the county has extremely low capital expenditure relative to operational expenditure as well as a low execution rate on capital expenditure.
- Given it has strong climate change policies in place, as well as an integrated development plan for the next five years, the county should now work on how it can package some of these projects to potentially attract climate and other finance. This can be done through the help of project preparation facilities.

Introduction and city context

Kisumu County, which is the location of Kisumu City, is in Western Kenya, on the border with Uganda. The county has a population of about 1,225,000 people, of which about 511,000 live in urban areas. The urban areas are growing by about 3.43% per year. Given its location on Lake Victoria, the county's economy is primarily focused on fishing and agriculture. However, light industry sectors are growing, most notably agro-processing and it is the counties with one of the most diversified economies in Kenya. The county's current governor is in his second, and final, term and is a member of the opposition party to the ruling party in Kenya.

Kisumu is an important secondary city for Kenya and is also strategically important for other East African countries as trade flows through the city to neighbouring landlocked countries, including Uganda, Rwanda, and the Democratic Republic of the Congo. The majority of Africa's urbanisation is currently happening in intermediary cities, like Kisumu. In order to set these cities up for success, it is critical to understand how to finance infrastructure investments in advance of people settling, as evidence shows that retrofitting infrastructure can be three times more financially costly – and substantially more politically and socially costly. As such, given that Kenya has strongly devolved structures, it would be a relevant test case in terms of how to unlock financing for smaller intermediary cities.

Macroeconomic context

Kenya's macroeconomic context is marked by significant economic activity and growth potential. The country stands as one of the larger economies in East Africa. The annual GDP growth rate of 5% highlights its robust economic expansion, driven by diverse sectors in agriculture, manufacturing, and services. Kenya has a notable urban population, constituting 28.5% of the country's total population.

Kenya is classified by the African Development Bank as a Category B country, giving it access to both concessional and non-concessional resources. This classification also indicates its status as a lower-middle-income nation with significant growth prospects. Importantly, Kenya has access to local currency financing, enhancing its fiscal flexibility. The budget deficit is notable at -6.05%, which could suggest prudent fiscal management despite the deficit. However, the revenue-to-GDP ratio of 16.82% indicates room for improvement in revenue collection. The debt-to-GDP ratio is relatively high at 67.83%, requiring careful debt management to ensure long-term fiscal sustainability. Kenya's position as a regional economic hub in East Africa, serving as a centre for trade, finance, and technology, works to its advantage. The country has also been active in infrastructure development, including transportation projects such as the Standard Gauge Railway, which aims to enhance regional connectivity.

The annual GDP **growth rate of 5% highlights Kenya's robust economic expansion**, driven by diverse sectors in agriculture, manufacturing, and services.

Macroeconomic indicators for Kenya

General	GDP, billions, PPP (current international $)	338.964
	GDP growth (annual %)	5
	Population (millions of people)	51.539
	Urban population (millions of people)	15.102
	Urban population as % of total	28.5
AfDB	AfDB category	B
	Local currency financing available	Yes
	FCAS	No
Debt	Budget deficit (%)	-6.05
	Revenue-to-GDP ratio (%)	16.82
	Debt-to-GDP ratio (%)	67.83
	Standard & Poor's	B (outlook downgrade)
	Moody's	B3 (downgrade)
	Fitch	B (downgrade)

Institutional and legislative environment

The 2010 constitution in Kenya devolved significant powers to the 47 county governments, including Kisumu, making them distinct but interdependent spheres of government. This also increased their expenditure responsibilities as well as their ability to raise own-source revenues. The county also benefits from transfers from the national government, which are allocated via the recommendation of an independent Commission of Revenue Allocation.

Kisumu has strong legislative structures in place that govern its climate change policies and priorities. These include a Climate Change Policy (2019), Climate Change Act (2020), and Climate Change Action Plan (2022). These complement the county's Integrated Development Plan (2023-2027), which outlines the priority investment projects that the county is planning to undertake over the medium term. These include 32 flagship projects, totalling approximately $731 million, which cut across all sectors from the construction of hospitals and health care centres, to the rehabilitation of roads and public parks and the creation of an affordable housing programme.

Budget

Kisumu County still relies primarily on transfers to fund its budget; in 2019/2020 these transfers made up 81.98% of the total budget. The level of transfers has been growing year-on-year. This is due to the fact that national tax revenue has been growing and transfers are calculated as 15% of overall national revenue, adjusting for factors such as population, poverty levels, land area, and own-source revenue performance.

Although Kisumu has significant powers to raise own-source revenues, these are still underperforming and, as highlighted in its credit rating report, this performance is declining. The main revenue that the county raises and keeps is from trading licences, followed closely by property tax in the form of land rates. Own-source revenue has not significantly increased in recent years. This impacts the county's ability to borrow against its balance sheet, which it has not yet done but has indicated that it would like to do in the future.

The audited accounts from 2019/2020 show a large underspend, relative to what was budgeted, particularly with respect to capital expenditure. Specifically, only 32.08% of what was budgeted was ultimately spent. Given that the majority of the county's budget currently comes from transfers, this means it is not yet managing to fully spend even what is allocated from the national level. In addition, although the Kenyan Public Financial Management Act says that the maximum amount that can be spent on salaries is 35% of the total budget, in Kisumu compensation to employees still makes up 69% of what is budgeted and what is spent.

Analysis

Kisumu County has good publicly available budget data from 2020 onwards, through detailed County Governments Annual Budget Implementation Review Reports issued by the Office of the Controller of Budget. It also receives an annual credit rating, since 2020, from the GCR. Its current rating is BB(KE) but classified as 'evolving'.

As highlighted, one of the major underperforming areas in Kisumu is its ability to generate local revenues, which are low in absolute terms and do not meet the targets that the county has set itself. Further, the county's own-source revenue performance has declined over time, and even fell slightly during the COVID-19 pandemic. There have been attempts by the county to implement reforms, for example, with respect to digitalisation of revenue collection systems. However, these have not significantly boosted revenue collection due to underlying systemic issues with respect to revenue administration.

As a result, although the county operates within the devolved framework of the constitution, it remains highly dependent on transfers. Further, as highlighted, Kisumu is currently significantly underspending on its allocated budget, particularly with respect to the development of capital projects. Looking at the top seven development projects in the financial years from 2016 to 2020, their average size was about $88,000. In terms of infrastructure projects, these are relatively small, yet they are still underperforming in terms of overall execution. This needs to be addressed in order for the county to raise and deploy larger amounts of financing for capital expenditure. Further analysis is required to understand what the current processes are that are preventing the smooth execution of projects.

Kisumu wants to follow in the steps of Laikipia County to become the second county in Kenya to issue a county bond, which is now legally possible. The example that Laikipia has set by issuing a bond on the domestic securities exchange would also be preferable for Kisumu given the importance of borrowing in local currency. Laikipia's bond, which has been approved by Parliament but not yet issued, is an $8.2 million domestic general obligation infrastructure bond that will finance a portfolio of projects including for water and sewerage systems, paving roads, walkways, and cyclist paths, and enhancing street lighting and enforced building zones. This is something that would be well within Kisumu's reach. However, there are differences between the two counties that should be noted. Laikipia has lower absolute levels of local revenues than Kisumu, but collection there has been growing. Further, Laikipia has a higher absorption rate of its investment budget, which in fiscal year 2020/2021 was at about 47.6%. These two factors – raising own-source revenue and improving execution rates on development projects – are areas Kisumu must work on improving.

The opportunity for Kisumu to access climate finance sources for its projects should also be considered, given that it has all the relevant instruments – including policies, regulations, and plans – in place. However, it would need to link these more closely to its Integrated Development Plan and climate-proof the project pipeline that is listed there. This would also provide an opportunity for project preparation facilities to support further work on pre-feasibility and feasibility studies, and subsequently financiers.

Lagos, Nigeria

Key messages:

- Lagos is Africa's fourth wealthiest city, with GDP per capita of $6,614 ($17,282 PPP) but tax revenue as a percentage of GDP is one of the lowest on the continent.
- It generates 70% of its own revenue but is heavily dependent on Pay-As-You-Earn (PAYE) and a thin layer of property tax for this revenue.
- The city has a sophisticated banking sector and the Lagos State Development Plan 2022-2052 emphasises the intent to borrow more locally, reducing dependence on foreign financiers.
- Development has relied on public-private partnerships with federal government tax breaks for private-sector property developers. The same partnerships have been less effective in ensuring universal access to basic services; 65% of Lagosians do not have access to electricity and 85% rely on informal sanitation.
- In 2022, diaspora remittances through official channels stood at $21.9 billion, over four times the value of foreign direct investment (FDI).
- Lagos has been active in the bond market since 2006. Opportunities to diversify the finance landscape and complement state investment in the integrated transport infrastructure remain.

Introduction and city context

Lagos State, which is comprised of five administrative districts, has a population of 16 million people[72] and is the largest city in a country of 215 million. 52% of Nigerians live in urban areas and the urbanisation rate is estimated to be around 3% per annum. Lagos State is the financial, retail, and trading hub of Nigeria, responsible for roughly a third of the country's GDP.

The Lagos State Development Plan (2022-2052) sets out four key objectives, which underpin the state's development strategy: thriving economy, human-centric city, modern infrastructure, and effective governance. These objectives are supported by over 400 initiatives in total, each of which is described in detail and assigned a 'responsible party' for implementation, although initiatives are not costed or given timeframes. The plan sets out the state's intention to increase internally generated revenue to 5% of GDP and to reduce the dependence of internally generated revenue on PAYE tax to less than 40% by diversifying revenue sources.

Macroeconomic context

GDP per capita in Lagos State is $6,614 (which translates into $17,282 when purchasing power is taken into account). This makes Lagos Africa's fourth wealthiest city.

Nigeria's macroeconomic context is marked by a substantial GDP of approximately $1.37 trillion (PPP), making it one of the largest economies in Africa. However, the GDP growth rate of 2.9% suggests a need for faster economic expansion to meet the demands of its rapidly growing population, which stands at around 215 million people. The fact that more than half of the population (52.75%) resides in urban areas reflects the ongoing urbanisation trend and its associated challenges. Nigeria is classified as a Category C country by the African Development Bank, making it a graduating country eligible for African Development Fund loans on hardened terms. It also has a large domestic finance market.

Debt-related indicators in Nigeria show mixed results. The budget deficit is -4.9%, reflecting fiscal pressures and a need for better fiscal management. The revenue-to-GDP ratio is notably low at 7.25%, indicating challenges in revenue collection. However, the debt-to-GDP ratio of 38% is relatively moderate compared to some other emerging economies, although prudent debt management remains crucial.

Credit ratings from Standard & Poor's (B-) and Moody's (Caa1) reflect Nigeria's higher credit risk compared to many other countries. Nigeria's unique macroeconomic trends include its significant oil production and export industry, which makes it highly susceptible to fluctuations in global oil prices. The country's position as a major economic player in West Africa presents opportunities and responsibilities in terms of regional stability and economic integration. Diversifying the economy beyond oil and addressing structural challenges are critical for Nigeria's long-term economic sustainability.

Nigeria's macroeconomic context is marked by **a substantial GDP of approximately $1.37 trillion (PPP)**, making it one of the largest economies in Africa.

Macroeconomic indicators for Nigeria

General	GDP, billions, PPP (current international $)	137
	GDP growth (annual %)	2.9
	Population (millions of people)	222.18
	Urban population (millions of people)	112.560
	Urban population as % of total	52.75
AfDB	AfDB category	C
	Local currency financing available	Yes
	FCAS	No
Debt	Budget deficit (%)	-4.9
	Revenue-to-GDP ratio (%)	7.25
	Debt-to-GDP ratio (%)	38
	Standard & Poor's	B-
	Moody's	Caa1
	Fitch	B-

Institutional and legislative environment

Lagos State has had a bespoke ministry of economic and budget planning since 2009 that is responsible for strategic planning, budgeting, and coordinating investments from state-owned entities.

Nigeria has a self-imposed limit that prevents the debt-to-GDP ratio from exceeding 40%. In 2022, this ratio stood at 23%, implying some headroom for further borrowing. The federal government's rules for local and regional government debt are evolving. Nigerian states do not have specific debt maturity, interest rates, or currency exposure guidelines enforced on them, but Lagos has an internal rule that prevents debt servicing exceeding 30% of operating revenue.

Only the federal government may borrow from non-Nigerian lenders. The federal government has several loans with the African Development Bank, all denominated in its domestic currency. Local governments (states) are only allowed to incur debt from domestic financiers. As a result, state debt tends to be low; of the 35 states in Nigeria, Lagos is the state with the highest absolute level of debt, which amounts to roughly 125% of its own-source revenue generation. Lagos State is listed as the 'implementing partner' in projects and toll-road public-private partnerships financed by the Bank. Similarly, Lagos' bus rapid transit (BRT) system was partially financed by a World Bank $150 million loan to the federal government.

Budget

Lagos State's approved budget for 2023/24 (the 'Budget of Continuity') totalled $2.31 billion or $144 per capita, of which $1.33 billion (58%) is for capital projects and 27% specifically for new infrastructure. The balance (42%) is spent on personnel and debt servicing. This equates to $48.22 capital budget per capita.

Own-source revenue in 2023/24 was estimated at $1.83 billion, with the 25-30% shortfall filled by borrowing (20%) and transfers from the federal government (10%). An estimated five million people (31% of the population) pay some form of tax or revenue to Lagos State, but only 400,000 entities are registered for PAYE. Non-compliance with tax obligations is a critical issue. Efforts are underway to change this, and an 18% growth in local revenue was recorded in 2022. Currently, Lagos generates 70% of its revenue from own sources, most of which comes from PAYE (45% of revenue) and property taxes. Other sources of revenue are more volatile and include sales proceeds, rents, land-use charges, fees, and fines.

At the end of 2022, Lagos State had $1.7 billion debt, with the cost of servicing this debt expected to deteriorate in 2023 as the currency depreciated. The state remained in good standing with local bond markets that comprised 20% of the end-2022 debt. The federal government does not require states to operate 'balanced budgets', but states are required to maintain their deficits to within 3% of national GDP.

The relatively high capital component of Lagos State's budget (58%) does not always translate into implementation of basic infrastructure and services for the city's poorest people, but Lagos is deliberate in trying to attract multinational companies and foreign investment.

Lagos State has had a $653 million bond, notes, and other securities facility (denominated in Nigerian Naira) since 2016. As of December 2022, bonds comprised 20% of Lagos State's debt. Under the 2016 Debt Issuance Programme, the state has issued the following bonds (denominated in Naira):

- $65 million five-year 13% Fixed Rate Bond redeemed in 2014
- $75 million five-year 10% Fixed Rate Bond redeemed in 2015
- $104 million seven-year 14.5% Fixed Rate Bond redeemed in 2019
- $114 million seven-year 13.5% Fixed Rate Bond due 2020
- $61.3 million seven-year 16.5% Fixed Rate Bond due 2023
- $60.5 million seven-year 16.75% Fixed Rate Bond due 2024
- $50.6 million seven-year 17.25% Fixed Rate Bond due 2027
- $9 million seven-year 15.60% Fixed Rate Bond due 2024
- $6.9 million seven-year 15.85% Fixed Rate Bond due 2027

Lagos State has been deliberate in seeking private sector partners for capital investment with the federal government offering tax incentives (20% of the cost of providing basic infrastructure is tax deductible) to private sector investors financing road, water, and electricity infrastructure. Infrastructure planning has been criticised as top-down and unable to generate the economic multipliers and poverty alleviation impacts that might be hoped for from infrastructure investments.

Analysis

In the shift from the 2012-2025 Lagos Development Plan to the 2022-2052 plan, Lagos State indicated a desire to reduce exposure to international capital on the grounds that it tends not to address poverty due to having its 'own logic'. Instead, the state seeks investments that are coherent with its plans. This aligns with efforts underway since 2004 to increase and formalise investment by Nigeria's considerable diaspora. In 2022, diaspora remittances through official channels stood at $21.9 billion, over four times the value of foreign direct investment, with unofficial remittances known to be much higher.

Lagos State is home to sophisticated banking and tech sectors and the state government has been effective in working with the federal government to develop transport routes and the port. Much of the local economy and budget revenue is, however, driven by real-estate development. Working with the Lagos State Development and Property Corporation and local banks, property developers continue to create and attract investment in high-end real estate opportunities such as Eko-Atlantic, heightening inequality.

Recent capital allocations in Lagos State have targeted the city's traffic congestion through the multi-modal Integrated Transport Infrastructure. Lagos BRT was Africa's first in 2007 and was developed by the state working with the Lagos Metropolitan Area Transport Authority (LAMATA), with finance from the World Bank. Subsequent expansion of this BRT system has championed the idea of BRT-lite, involving fewer capital outlays, only partial segregation of bus lanes, and less technology. A lite-rail component of this plan was completed in 2022. The Lagos State Development Plan also highlights the need to increase the extent of the formal housing stock to 70% of the total by adding 150,000-200,000 housing units.

In July 2023, Fitch downgraded Lagos State's Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) to B-, reflecting a 'very high risk' that the state may struggle to meet its debt servicing obligations between 2023-2027. Fitch cited weak revenue collection, rising cost of capital, and higher than expected expenditure. At the end of 2022, 44% of Lagos' debt was to development finance institutions and in foreign currencies. The depreciation of the Nigerian Naira from 446 to the USD at the end of 2022 to 766 to the USD in August 2023 has contributed to the state's debt obligations and to inflation.

Luanda, Angola

Key messages:

- Angola is a highly centralised economy. Cities, including Luanda, have no legislative authority, very little financial authority, and little to no expenditure authority. Therefore, it is difficult to directly engage with Luanda on municipal finance reforms.
- Fundamental economic and decentralisation reforms are therefore required, particularly given that Angola is a highly oil-dependent economy.
- Although many of these reforms are planned, they are still only being considered and it is unclear what the timelines are for moving them forward. In the absence of these reforms, most work that will impact Luanda will need to be done through the relevant national sectoral ministries.
- One potential area of support is through the new participatory budgeting system set up in 2019 (and implemented from 2021 onwards). However, it is unclear how much impact this will have on investments in the city given the relatively small proportion of the overall budget it represents.

Introduction and city context

Luanda is a coastal city and the capital of Angola. It has an estimated population of over 8 million people and a growth rate of 7% per year. It hosts over 40% of the country's total urban population. The city's population growth is far outpacing the investments taking place in infrastructure and services, even though this area of the country receives the most substantial support from the national government. It also has a high unemployment rate, estimated to be over 55% for youth between 15-24 years old. An estimated 72.6% of the population is employed in the informal sector.

Social housing has been a particular focus for investments in recent years, to reduce slum formation. The national housing programme has been implemented through a series of public-private partnerships. However, the resulting houses have often been priced far above what the majority of the population can afford, leaving some of the housing estates built but empty.

The city is the administrative centre for a highly oil-dependent national economy and therefore its own local economy is also dominated by the oil industry. It is the location of the port for most oil exports as well as site for the main refinery. The oil dependence of the country has also had other impacts on the city. For example, Luanda has been ranked as one of the world's most expensive cities to live in. Due to falling and volatile oil prices, Angola is now trying to diversify its economy through a series of structural reforms. However, these are impacting GDP per capita, which has been falling, resulting in associated increases in poverty levels.

Although elections are coming up in 2024, provincial governors, including in Luanda, are currently appointed by the president, to whom they are politically and institutionally accountable. Therefore, the provincial governor of Luanda is typically aligned with the ruling party. The governor, in turn, is responsible for appointing and discharging municipal administrators and deputy municipal administrators.

Macroeconomic context

Angola's macroeconomic context reflects an economy in transition. With a GDP of $260.32 billion (PPP), it is one of Africa's substantial economies, mainly driven by oil exports. The annual GDP growth rate of 1.3% indicates a stabilising economy following years of oil price volatility. Angola's population of 36.78 million includes a significant urban population of 24.23 million, accounting for 68% of the total. This high level of urbanisation presents opportunities and challenges, including the need for urban infrastructure development. Angola falls within the African Development Bank's Category C, accessing the non-concessional window of the Bank's resources. This signifies its status as a lower-middle-income country with potential for growth.

However, the absence of local currency financing options limits fiscal flexibility. The country's budget deficit is relatively modest at -1.9%, suggesting prudent fiscal management. However, the revenue-to-GDP ratio of 10.1% indicates significant room for improvement in revenue collection. The debt-to-GDP ratio is relatively high at 86.41%, reflecting the country's reliance on external borrowing to finance development. Important macroeconomic trends in Angola include its heavy dependence on oil exports, which exposes the economy to global oil price fluctuations.

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Macroeconomic indicators for Angola

General	GDP, billions, PPP (current international $)	260.32
	GDP growth (annual %)	1.3
	Population (millions of people)	36.78
	Urban population (millions of people)	24.229
	Urban population as % of total	68
AfDB	AfDB category	C
	Local currency financing available	No
	FCAS	No
Debt	Budget deficit (%)	-1.9
	Revenue-to-GDP ratio (%)	10.1
	Debt-to-GDP ratio (%)	86.41
	Standard & Poor's	B-
	Moody's	Ba2
	Fitch	B

Institutional and legislative environment

Angola is a highly centralised country with one of the least diversified economies in the world. This means the institutional structures are all centred at a national level, and, in some cases are within the sole remit of the president and the national assembly, such as the ability to set fiscal rules. Within this, however, there have been some legal changes to try to give Luanda province more responsibilities. For example, Law 18/16 of 2016 changed the political and administrative division of Luanda Province by expanding the area of the province and changing the status of some localities.

Angola has recently embarked on some decentralisation reforms aimed at transferring responsibilities from central and provincial to municipal levels. Law 27/19 of 2019 establishes the principles and rules for the organisation and functioning of local authorities and further decentralises fiscal responsibilities and gives local authorities greater autonomy to collect local taxes. There are still delays and wasteful expense in the implementation of these policies, which are attributed to the reluctance of some higher levels of government to relinquish their authority as well as the existence of some unnecessary overlaps and duplications of responsibilities.

The Local Administration Law 02/07 of 2007 provides a detailed list of revenue sources available to local governments, including budget transfers from the national level and local taxation. Since 2018, local governments have been granted new powers to administer and collect taxes and fees from several services provided by local administrations, to help them improve their revenue. However, despite these recent measures, provinces, and municipalities, including Luanda, still have limited autonomy over local financing.

In Angola, there is no legal authority for provincial governments, including Luanda, to incur debt.

Budget

Data on Luanda's provincial budget was extracted from the Angola General State Budget. The budget provides a comprehensive outline of the country's revenues and expenditures, together with the budgets of the provincial governments of Luanda and Cabinda. Transfers to the provinces represented 21.14% of the national budget, of which the province of Luanda was allocated the largest portion (23.97%).

Luanda also draws its income revenue from other sources, including from direct taxes imposed by the provincial government, expenses, emoluments, and contributions. In contrast, other income streams, such as services and miscellaneous revenues, collectively contribute to less than 6% of the total revenues.

On the expenditure side, Luanda spends substantially more on recurrent expenditures than investment. These amount to 87% of the budget and encompass personnel costs, contributions, maintenance of assets, and transfers to lower levels of administration. In comparison, capital expenditures, involving the acquisition of fixed capital assets, are expected to occupy a marginal share of approximately 12%.

This high proportion of recurrent expenditures in Luanda's budget is likely also driven by the centralised nature of the government; the national government maintains the primary responsibility for investment expenditures in the city. In 2021, over 50% of the investment budget from the national government to Luanda went to improving basic sanitation. The second highest proportion of expenditure, over 14%, went to the construction and rehabilitation of road infrastructure. However, only 12.38% of the overall capital expenditure budget in 2021 was successfully spent.

Analysis

Luanda is an extremely important city in Angola, particularly given that it is home to the largest share of the country's urban population. Given much of this population lives in informal settlements and has poor access to infrastructure and services, the investment needs are high. However, from a governance perspective, it will be extremely difficult to work directly with the city to unlock financing due to the highly centralised nature of the economy, where Luanda and other cities do not have any legislative authority over their fiscal matters.

In addition to decentralisation reforms, fundamental reforms are required on a macroeconomic level to diversify the economy away from its oil dependency. These reforms will have substantial impact on the local economy and finances of Luanda as well, yet the city will have little control in managing these. All these reforms are only now starting and therefore, at least in the near term, work to improve the urbanisation trajectory of Luanda will primarily need to happen at the national level.

One potential area of support is through the new participatory budgeting system set up in 2019 and implemented since 2021. This was mandated through the law approving the state budget in 2019, which made Angola the first country globally to mandate participatory budgeting through national legislation. The subsequent presidential decrees that were issued, 234/19 and 235/19, further specified that each municipality would be allocated 25 million Kwanzas (approximately $30,000) for the public to decide on for allocation annually. As Luanda has seven municipalities, this brings the total annual budget for the city for this exercise to $210,000. Thus, whilst laudable, in absolute terms it still represents a tiny fraction of the financing the city needs for investments in infrastructure and services, and it is unclear how much impact this will have on the urban trajectory of the city.

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Endnotes

Executive summary

1 French (2022)

2 Koronso et al (2021)

3 Macrotrends (2023)

4 Lustgarten (2021)

5 OECD (2022)

6 31% urban in 1938 from UNHabitat (2018)

7 Urbanisation rate in 2021 from O'Neill (2023)

8 Liu et al (2022)

9 Ibid 2

10 All $ are USD unless otherwise stated

11 African Development Bank (2018)

Landscape of city financing in Africa

12 Polio and Cirolia (2022)

13 African Development Bank (2012)

14 Lamson-Hall (2022)

15 World Bank (2023)

16 OECD/UN ECA/AfDB (2022)

17 Ibid 18

18 Colenbrander (2016)

19 Muggah and Hill (2018)

20 It is important to note that investment in African infrastructure declined between 2021 and 2022 and monetary policy tightened.

21 World Bank (2017)

22 Ibid 23

23 Chitekwe-Biti et al (2022)

24 OECD/UCLG (2022)

25 Coalition for Urban Transitions (2021)

26 Paulais (2013)

27 Guterres (2020)

28 African Development Bank (2019)

29 UCLG (2017)

30 FSB (2022)

Demand-side constraints: why are cities not demanding more finance?

31 OECD/ UCLG (2022)

32 13 countries with no data: Central African Republic, Comoros, Republic of Congo, Democratic Republic of the Congo, Equatorial Guinea, Eritrea, Guinea-Bissau, Lesotho, Libya, Sao Tome and Principe, Seychelles, South Sudan, Sudan

33 Abidjan, Addis Ababa, Algiers, Cape Town, Dakar, Dar es Salaam, eThekwini, Kinshasa, Kisumu and Luanda

34 Those who prohibit borrowing by sub-national entities overall include Angola, Djibouti, Egypt, Liberia and Niger.

35 These countries are: Cape Verde, Eswatini, Ethiopia, Ghana, Malawi, Rwanda, Tanzania, Togo, Zimbabwe

36 Countries where the African Development Bank does not lend in local currency: Cape Verde, Eswatini, Ethiopia, Malawi, Zimbabwe

37 The countries that do not require national approval for sub-national borrowing are Algeria, Burundi, Guinea and South Africa.

38 GCR (2020)

39 Amani et al (Forthcoming)

Supply-side constraints: why does long-term finance not reach African cities?

40 African Development Bank (2019)

41 It has issued a line of credit to the Fonds d'Equipment Communal (FEC) a national subnational financial intermediary in Morocco, which on-lends the money to cities. However, it has not issued a line of financing to a city directly.

42 Local currencies that the African Development Bank can lend in: Egyptian Pound (EGP), West African Franc CFA (XOF), Central African Franc CFA (XAF), Rwandan Franc (RWF), Ghanaian Cedi (GHS), Nigerian Naira (NGN), Botswana Pula (BWP), Mozambican Metical (MZN), Kenyan Shilling (KES), Tanzanian Shilling (TZS), Ugandan Shilling (UGX), Zambian Kwacha (ZMK)

43 Bova et al (2016)

44 Data in the table compiled from IMF (2023), Trading Economics (2023), African Development Bank (2018)

What works in unlocking financing for cities: case studies from Latin America and Asia

45 Abbot et al (2017)

46 Edmonds-Poli (2006)

47 Cámara De Diputados Del H. Congreso De La Unión (2018)

48 Evensen Dodge International (2019)

49 Ibid 48

50 Ibid 48

51 Saxena (2022)

52 The Global Development Alliance was a partnership between USAID and the private sector to develop and implement market-based approaches to solve development challenges.

53 USAID (2014)

54 Ibid 50

55 Official Gazette (1987)

56 See Article 10, Section 6

57 de Visser, J. and de Visser, S. (2022)

58 Smoke (2019)

59 Department of Finance (2023)

60 Ibid 59

61 Ibid 59

Implications and recommendations

62 Pieterse (2023)

63 Global Partnership for Sustainable Data (2023)

64 Total revenue compared to total costs

65 Otunola et al (2019)

66 Ecodit LLC and Impact Inc (2018)

67 Msuya (2023)

68 Löffler and Haas (2023)

Further considerations for financing African cities

69 IEA (2022)

Annex A

70 For Addis Ababa, the city supplemented some of the data with municipal financial data. For Cape Town, a few interviews were carried out with city officials.

71 These were the two years for which expenditure data was available.

72 This is sometimes reported as 20 million.

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COVER IMAGE: Lagos, Nigeria

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