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CASE STUDY 3

Enhancing the financial position of cities: evidence from Dakar

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About this initiative

Supporting the urban dimension of development cooperation: *Enhancing the financial positions of cities in developing countries to achieve sustainable urban development*

This initiative has been requested by the European Parliament. It is implemented by European Commission and UN-Habitat, supported by the International Growth Centre. These partners are working to identify relevant measures to help mobilise financing for urban development at all levels of government. The work has been undertaken through case studies conducted in Dakar (Senegal), Hargeisa (Somaliland, Somalia), Kampala (Uganda), Kisumu (Kenya), Mzuzu (Malawi), meetings with experts and practitioners, and empirical literature. The initiative works with an Advisory Group, chaired by Professor Sir Paul Collier from the University of Oxford, and consisting of representatives from the European Investment Bank, African Development Bank, UN Capital Development Fund, UN Economic Commission for Africa, and United Cities and Local Governments.

CASE STUDY 3

Enhancing the financial position of cities: evidence from Dakar

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Acknowledgements

The following city case study has been developed as part of the initiative 'Supporting the Urban Dimension of Development Cooperation: Increasing financial capacities of cities from developing countries to deliver productive and sustainable urban development' requested by the European Parliament as a pilot project and funded by the European Union.

The content is based on both interviews and online research conducted between May 2019 and March 2020. For their contributions, we would like to thank representatives from the Municipality of Dakar; the United Nations Capital Development Fund (UNCDF); the European Commission Delegation of Senegal; Directorate General of Taxes and Domains (DGID's) Bureau of Local Collection; The Abdul Latif Jameel Poverty Action Lab (J-PAL); USAID's Water, Sanitation and Hygiene Finance (WASH-FIN) programme; University of Berkeley; the Executive Council of Urban Transport in Dakar (CETUD); the Mayor of Dieuppeul-Derkle; City Resilience, and the African Development Bank.

Summary

The city of Dakar is one of the only cities in Africa to come close to taking a municipal bond to market. The US$40 million bond, set to launch in 2014, was designed to fund a new market hall for informal traders in the city. The market would relocate more than 4,000 street vendors, with the aim of moving them from side streets into a safe and central place to sell their goods, with access to credit agencies and other market services. Development partners, including the Bill and Melinda Gates Foundation, the World Bank's Public-Private Infrastructure Advisory Facility (PPIAF), Cities Alliance, and USAID, played a crucial role in making the bond terms viable – both in shouldering the financial burden of developing internal creditworthiness, and in providing expertise and guarantees to reduce the risk.

Although the bond's launch was ultimately stopped by national government decree, the process of preparing for the bond has greatly improved the financial management capabilities and creditworthiness of the city. As a result, Dakar's bond journey is still paying dividends to the city today, with a number of successful concessional and commercial loans. The process also deepened the city's connection with its residents – with small bond denominations, informal traders were one of the key investors.

The motivation for the bond was in part due to the city's lack of control over its financial resources. While the most recent decentralisation law amendment, Acte III de la Décentralisation of 2013, has seen many responsibilities devolved to the local level, finances to deliver on this new mandate have not followed. In fact, all revenue and expenditure for local governments in Senegal are processed at the national level, leaving little room or incentive for financial reform. Surprisingly, despite this, the law gives local governments relative independence in taking on debt. This meant that when Mayor Sall came into office with a vision for change, the only viable financing opportunity within the city of Dakar's control was via the latter. This legislated independence is also the reason why the halting of the bond was so heavily contested.

The city of Dakar provides an example of the importance of the political landscape in effecting any innovative reforms, as well as the need for the national government to buy-in to the fact that successful cities are in their interest as well. This is particularly critical in Dakar's case, given the city's finances are managed at the national level. Fortuitously, the national government is now beginning to focus on improving local revenues, primarily through property taxes, as well as better coordination amongst different stakeholders through a dedicated department and the 'Local Fiscality Commissions' described below.

Key messages:

- Decentralisation of responsibilities needs to be accompanied with the commensurate decentralisation of finances in order for it to be effective.
- Strong leadership and an empowered and capable workforce are essential for reform.
- Development partners can play a critical role in de-risking municipal bonds and ensuring the terms are viable – both for investors, and for the city.
- When thinking about floating a municipal bond, ensuring the denominations are low enough that citizens can buy in is important for strengthening the social contract.
- Designing 'bankable' projects requires a broader definition, given there is a trade-off between pro-poor and pro-return investments, and the additional benefits associated with public goods.
- Regardless of the bond, the financial management reforms to achieve creditworthiness can bring additional opportunity in concessional and commercial loans.

Urbanisation trends, challenges and financial needs

Dakar, Senegal's capital, is one of the chief seaports on the West African coast. Growth rates in the country have been high at over six per cent since 2014, with positive future projections, particularly with oil and gas production expected to start in 2022.[1] However, its development indicators are still relatively low compared to other cities in sub-Saharan Africa. Senegal has a human development index (HDI) of 0.505, placing it 164th out of 189 countries, and a GDP per capita of approximately US$1,500.[2] This figure compares to a sub-Saharan Africa average of 0.537 and approximately US$1,600 respectively. The country's debt-to-GDP is also around 65 per cent, partially due to a Eurobond issuance of around US$2.2 billion in 2018.[3]

With more than 45 per cent of Senegal's population living in cities, the country is more highly urbanised than its sub-Saharan African neighbours.[4] Projections estimate that this will grow to 60 per cent by 2050, with over a quarter of this proportion residing in Dakar.[5] Home to around 1.15 million people, the city of Dakar currently has over 3 million people in the greater metropolitan area. It also boasts of being one of the only cities that has been able to lift these new inhabitants out of poverty through economic growth. Dakar produces over 55 per cent of the country's GDP itself, with the city being home to more than 80% of the country's registered firms and 52 per cent of its jobs.[6] Outside of Dakar, urbanisation across Senegal has not been wholly positive, with many of the other cities failing to deliver urban infrastructure and public services.[7] For example, only 37 per cent of urban households have access to basic sanitation, and less than 20 per cent of cities have urban plans, most of which are obsolete or not enforced.[8]

Senegal has been continuously giving local governments more power to improve the lives of citizens since its independence in 1960. The most recent phase, the 2013 Acte III de la Décentralisation (Third Decentralisation Act), which is described in more detail below, saw an even greater push towards redefining the importance of local governance in the country. The Act increased the number of municipalities from 172 to 557 and empowered them with the transfer of new responsibilities as a way of increasing connection with citizens and equalising the distribution of resources. This empowerment, together with the current president's 'Plan Senegal Emergent' (Emerging Senegal Plan 2014 – 2035), aims to enable and guide the structural transformation of Senegal's economy to more productive 'urban poles'. As part of this, one of the objectives is to strengthen domestic revenue mobilisation, with the ambitious goal of increasing the tax-to-GDP ratio from 15 to 20 per cent by 2023.[9]

Dakar is a city that is constrained geographically in a narrow peninsula. It is therefore, unable to expand to accommodate rapid urbanisation, resulting in high levels of congestion, overcrowding, and rising house prices. This restriction has resulted in an innovative push to create the futuristic city of Diamniadio, aimed at reducing pressure on the capital and igniting economic growth. Located 40 km from Dakar, midway to the Blaise Diagne International Airport, the aim is for the new city to be built by 2035 at a cost of over US$2 billion (funds are expected to come mainly from Public Private Partnerships). It aims to be a modern urban centre with luxury and middle-class housing, as well as a university and industrial park.[10] Progress has been slow; some see this as the only solution to the capital city's problems with serious potential for wealth creation. However, others fear that it will trap the country in unmanageable levels of debt for years to come and has been planned without inhabitants in mind.


Panoramic view of the city from the harbor, Dakar, Senegal © Shutterstock

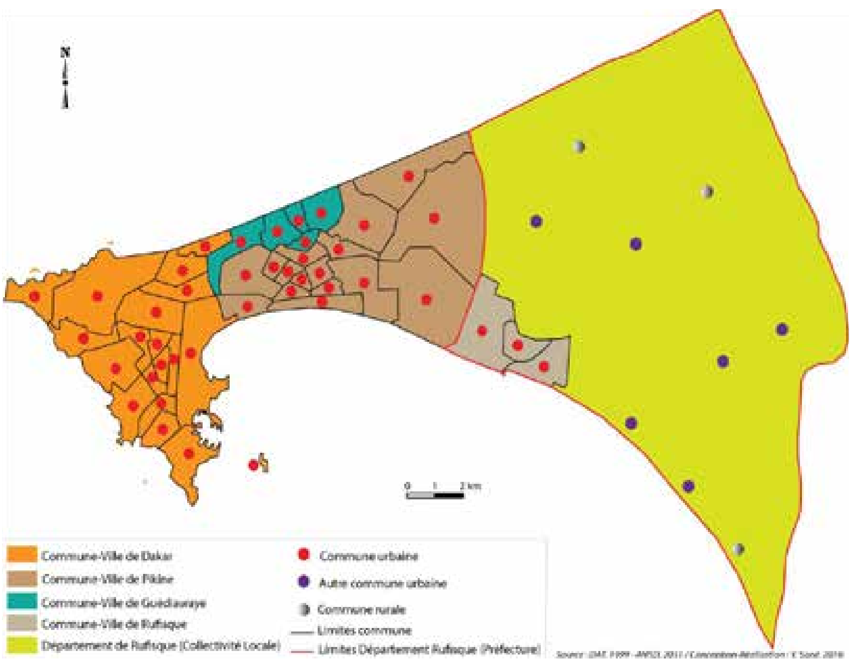
Municipal finance and urban governance structure

Urban governance structure and mandate

Senegal is a unitary country: the state is governed as a single entity in which the central government is ultimately supreme, but with a multi-level governance framework. At the sub-national level, there are 14 regions and 45 departments, as well as 557 communes, or commune de ville (urban communes) at the municipal level. While regions and departments are both administrative boundaries with no political power, communes are democratically elected every five years. Figure 1 shows the four departments of the Dakar region, including Guediawaye, Dakar, Pikine, and Rufisque, and their associated communes.

The city of Dakar is both a department and a commune – i.e. both a collection of citizens and its own administrative legal entity, with no hierarchy between the two functions. The department of Dakar is divided into the city's four arrondissements (districts) – Almadies, Grand Dakar, Parcelles Assainies, and Plateau/Goree (downtown Dakar), and the city was then further split into 19 'communes d'arrondissement' in 1996. While the commune-ville of Dakar acts as a coordinator of all activities, each commune in itself has an elected council, and since 2013's Acte III, have even higher levels of autonomy. The 'prefet' of the department and 'sous-prefet' of each arrondissement are central government figures in charge of controlling the communes and aligning them with the state.

Figure 1: The communes and departments of the Dakar region



Source: Sané, Y. (2016)

The 2013 General Local Government Code builds on the Decentralisation Law and Local Government Code of 1996, to outline the competencies at the municipal level.[11] These include administrative services such as the registry of births and marriages, police, urban planning, urban roads, public and green spaces, local tourism, construction and renovation of housing and community amenities, street lighting, primary health care and education, sports, libraries, and social protection of children and young people. The department level has similar competencies, but the specific function within each section is different and depends on the spatial scale it covers. For example, the district might cover high schools, while the commune would cover primary schooling. However, the department will assist if the commune does not have sufficient capability. The decentralisation of competencies is calculated by the coefficient of territorial equity, weighted by demography (20 per cent), rural/urban location (40 per cent), and poverty (40 per cent). In practice, this has resulted in a widespread lack of clarity between cities and departments, as well as fragmentation between an even larger number of local authorities in the greater Dakar region.

The General Code also maintains that the resources necessary to deliver on those responsibilities must be made available, and a community consultation framework for participatory governance of projects must be established. Unfortunately, in reality and as is the case in many cities, the decentralisation of funding has lagged behind that of functional responsibilities. Recent reforms attempt to remedy this with a dedicated national unit focused on increasing local tax revenues and working with citizens to improve the social contract. The section on 'Improving the regulatory environment for access to finance' fleshes out the current state of progress on decentralisation in more detail.

Municipal finance overview

The city's major issue regarding municipal finance is the complexity and confusion regarding fiscal decentralisation following the reallocation of services under Acte III. Dakar's revenues had grown sustainably, from CFA 40 billion (US$68 million) in 2010 to CFA 60 billion (US$102 million) in 2014.[12] However in 2015, after the phasing in of Acte III, the city's financial position dropped by CFA 13 billion (US$22 million). This is because more communes meant both higher operational costs, as well as more entities to split local revenues. The budgeted revenue for the 2020 fiscal year has only now rebounded to 2014 levels at CFA 67 billion (US$111 million).

A key element of Senegal being a unitary country is that the state has control over all finances. Therefore, another key challenge is that the state collects, manages, and spends all revenues on behalf of the municipality. Even in the few cases where there is local collection of fees (such as market fees), the city remits the funds to the national treasury, who then takes care of the accounting and distributing. Local governments are unable to hold a bank account unless co-signed by a central government authority. The Directorate General of Taxes and Domains (DGID) under the Ministry of Finance is responsible for this financial management.

Although the national Ministry of Finance is in charge of all finances, it is important to note that all local revenues collected in a specific commune are simply held by the state on behalf of the local authority. At the beginning of the financial year, the expectation is that the central government provides an advanced transfer that represents a minimum of 25 per cent of the city's proposed budget for the year. This allows the municipality to function and deliver initial services while the DGID collects actual revenues. The rest is transferred as adjusted actuals once collected; however, this is often ad hoc, with stakeholders noting that the state often prioritises their own cash-flow management before paying the local authorities.

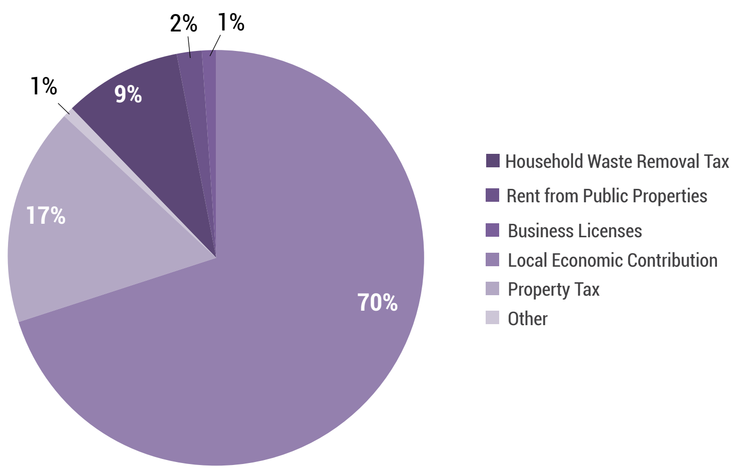
The issue with this type of decentralised system is the city's lack of autonomy. Although it has the power to plan its budgets and design projects to deliver on its mandate, it has no control over how much money it can raise to achieve this. This effectively usurps the decentralisation of power. Two central government actors, the 'prefet' and the 'percepteur', also have oversight over this, approving the budget and financial activities, and acting as the city's external accountant respectively.

The state's collection of all finances also creates perverse incentives around payments, collection, and distribution. For example, there is no incentive for the central government to make investments in enhancing local revenue collection as they do not directly stand to benefit. Furthermore, this set up makes it tricky for the taxpayer to hold government accountable, as there is a distinction between who is collecting the taxes and who is delivering the services, and given that they are intrinsically interconnected, it is difficult to pinpoint which one is falling short.

Locally generated revenues comprise of the property tax, local economic contribution (Contribution Economique Locale or CEL), domestic waste collection tax, business licences, rent from public properties, advertising and fuel taxes, and fees relating to water, electricity, transport, funeral services, and telecommunications. Which authority collects each tax depends on their spatial scale; for example, Dakar district collects CEL and property tax, while the individual communes collect market fees and waste collection tax. As described, these are all immediately remitted to the central government's custodianship.

The total operational revenue for Dakar as shown in the 2020 budget is CFA 42 billion (US$70 million), with CFA 10 billion (US$17million) carried over as surplus from the previous year. The CEL, levied on businesses, is the most significant contributor to Dakar's operational revenues, making up 70 per cent, or CFA 23 billion (US$38 million) of revenues collected in the 2020 budget. It is calculated using the annual rental value of the business premises, and the value-added contribution of the previous year. The CEL has only been levied since the implementation of Acte III, replacing the 'patente' or business licence to ensure that economic contributions are more closely related to spatial position. The move from the 'patente' to CEL has therefore ultimately reduced revenues for Dakar. Figure 2 below displays the breakdown of operational revenues budgeted for 2020.

Figure 2: Budgeted operational revenues for the City of Dakar, 2020



Source: Dakar Commune Budget 2020

Property taxes, while making up only 17 per cent of the total budget, are one of the more promising areas to increase local revenues. Current collection rates are much lower than potential, around 20 per cent of what could be expected with strong administrative reform.[13]

Dakar benefits from around 80 per cent of all local government tax revenues (largely driven by the fact that the city generates 68 per cent of national economic activity). However, the revenues received are still far lower than potential. As mentioned above, this is mostly due to the lack of central government incentive to increase compliance and enhance collections. In addition, central governments often provide tax rolls late, midway through the financial year, and are known to grant exceptions to third parties without consulting local governments. As of July 2019, the municipality had not yet received its funds that were due in January.

In addition to these centrally held local revenues, there are two main instruments through which the **central government contributes** to local authorities: the Local Government Endowment Fund (FDD) and the Capital Investment Fund (FECL), which transfers 5.5 per cent of VAT.[14] In the 2020 budget, the former contributes CFA 165 million (US$270,000), and the latter CFA 850 million (US$1.42 million). In addition, the central government allocates resources to deliver on mandates such as education and health under the transferred Consolidated Investment Budget (BCI). Local authorities also receive rebates from the annual vehicle tax, tax on oil (50 per cent), and property transfers (50 per cent of margin on profit).

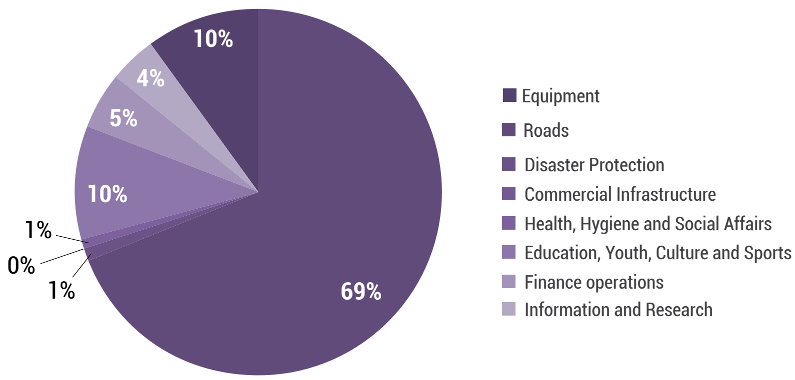
Central government contributions are allocated in line with pre-determined formulas, with more being allocated to less fortunate localities in an attempt to equalise revenues given that Dakar is home to the majority of economic activity. The result is that for Dakar, these central government contributions all together make up a minuscule proportion of the budget – far less than 1 per cent. The central government also provides assistance through the National Local Development Programme (PNDL) and the Municipal Development Agency (ADM). Both are under the Ministère des Collectivités territoriales, du développement et de l'aménagement des territoires, and were put in place to help smaller communes.

The ADM, in particular, is a vehicle for the national government to coordinate and raise funds from various donors and allocate them to specific communes. The national government manages the investment process on their behalf, saving communes from having to negotiate with private partners, especially those who do not have the power and internal structures to go to international markets. However, it does take away their autonomy, as the national government makes the decisions, and projects are simply 'placed' in the commune. Ideally, communes should be involved in these projects to build technical capacity in project management and maintenance.

Although local governments have a small amount of autonomy in the collection of local taxes such as garbage tax and market fees, the only real source of autonomy comes from external funds provided by **development partners and the private sector**. Local authorities in Senegal are allowed to borrow directly from any sources, the only restriction being that locally generated revenues should cover both the operating expenditures and outstanding debt. Big cities, such as Dakar, have the capabilities to do this, but it can reinforce inequalities with other communes.

The difficulties in the allocation of own-source revenues were a key contributing factor to the city of Dakar looking to financial intermediaries for a more secure source of funding. Although the bond did not ultimately work out, international loans, such as those from the African Development Bank, the French Development Agency (AFD), the West African Bank, and the International Finance Corporation`s Cities programme have become an increasingly large part of financing the city's infrastructure. Currently, they amount to CFA 1.9 billion (US$3.2 million), but this figure fluctuates drastically year-on-year as projects begin and come to a close. In addition, private sector partnerships, which by law are allowable up to a 33 per cent share, are becoming a popular alternative for investment in high revenue-generating activities. Since 2012, the state has also set up the Guarantee Fund to support private investment, including the Priority Investment Guarantee Fund (FONGIP) and the Sovereign Investment Support Fund (FONSIS).[15]

Figure 3: Investment expenditure for Dakar City, budget 2020



Source: Dakar Commune Budget 2020

Table 1: Operational expenditure for Dakar City, budget 2020

Operational expenses	Value	% of Total
Debts, fees and insurance	CFA 772,500,000	3.7%
Quotas and contributions	ClrA 1,350,000,000	6.5%
Mayor's office & secretariat	CFA 7,175,779,1630	34.5%
Public parties and ceremonies	CFA 926,329,538	4.5%
Municipal incomes	CFA 228,892,773	1.1%
Municipal collection service	CFA 537,945,963	2.6%
Abbatoirs, Halls and Markets	CFA 25,687,373	1%
Communal Properties	CFA 136,000,000	0.7%
Protection/Accidents	CFA 14,500,000	0.1%
Roadways, squares and Gardens	CFA 2,341,950,074	11.2%
Water, Cleaning and Sanitation	CFA 205,728,369	1%
Workshop and Garages	CFA 799,496,481	3.8%
Public Lighting	CFA 159,500,000	0.8%
Education, Youth, Culture and Sport	CIFA 3,280,331,497	15.8%
Health Hygiene and Social Affairs	CFA 1 397,071,523	6.7%
Other	CIFA 1,477,915,435	7.1%

Source: Dakar Commune Budget 2020

Expenditure overview

Local government spending is low compared to overall public spending, representing just over 1 per cent of GDP and less than 4 per cent of Senegal's total public spending.[16] Within local expenditure generally, 75 per cent is budgeted for operating expenditure and 25 per cent for investment, with Dakar being no different. However, relatively high operating costs left an investment gap averaging CFA 3.4 billion (US$5.7 million) each year between 2008 and 2014.[17] This gap constrains the city's ability to develop. It is important to note again that the state directs all spending on behalf of the city, even though the procurement process is managed at the local level.

In terms of investment expenditure, Figure 3 below shows that the city spends the vast majority (69 per cent) on roads at CFA 17 billion (US$28 million). This allocation is followed by administrative and larger equipment at CFA 2.5 billion (US$4.2 million), and education, youth, culture, and sports at CFA 2.4 billion (US$4 million).

In terms of operational expenditure, the most considerable expense is the staffing cost of the Mayor's office and Secretariat making up over a third of the total at CFA 7.2 billion (US$12 million). This allocation is followed by spending on education, youth, culture, and sport at CFA 3.3 billion (US$5.5 million) or 16 per cent, and then by maintaining roadways, squares, and gardens at CFA 2.3 billion (US$4 million) or 11 per cent. Table 1 shows the operational expenditure budgeted for the 2020 financial year.

Reforms undertaken to enhance the city's financial position

Enhancing the capacity of city financial and investment management

Many of the reforms to the Dakar municipality took place after the election of Mayor Sall in 2009, a leader of the opposition party in Senegal. The Mayor had extensive plans to transform the city but was constrained due to limited resources. As described above, finances were also out of the city's control, leaving few options to increase the resources available. Therefore, out of this necessity came invention: the Mayor's team was tasked with sourcing external finance, particularly international loans and the possibility of a municipal bond. However, in order to build the long-term financial capacity and creditworthiness of the city, they first needed to ensure that sound revenue and expenditure procedures were in place. This included building a team of qualified and well-trained staff, creating a long-term vision and strategic plan, and enhancing the efficiency of financial operating systems.

Empowered and autonomous team

Initially, the city's financial and accounting team took on the task of modernising the city's financial systems. However, their limited capacity, large existing workload, and resistance to change resulted in the appointment of a specialised and highly skilled team in 2012. This team, the Dakar Municipal Finance Programme (DMFP), was separate from the rest of the city administration and consisted of four Senegalese professionals and one external expert.[18] It also operated outside of the typical bureaucratic limits, with direct accountability and access to the Mayor.

Preparing for a municipal bond and engaging with international financial institutions is a complicated endeavour, particularly with no previous experience and in an area where little precedence has been set. The international partners supporting Dakar at the time wanted to bring in external expertise. However, the Mayor would not allow external consultants to work on the project before Dakar's internal team could themselves construct a strategic plan to meet his vision as detailed below. Only once staff had the necessary foundations could external expertise be brought in to assist and further enhance internal capacity. Once the internal vision was set, the project team was then able to create a highly capable taskforce of technicians from the city as well as external experts. These individuals became a so-called observatory, a collective cross-government and cross-sector team with one desired output: to develop a tangible project worthy of external financing.

In addition to learning by doing, training was also necessary. AFD's training school in Marseille was a key platform for developing capacity in both governance and financial management. Partnerships with other cities and cross-city learning were also critical – the team undertook two study tours, to the cities of Douala and Johannesburg, which had already issued municipal bonds. These trips provided the team with a critical background in understanding the financial market and foresee potential pitfalls that might arise.

Long term vision & strategic planning

Before 2009, the city of Dakar did not have a strategic planning document. This lack of shared vision was a significant challenge for coordinating investment. Therefore, one of the new administration's first initiatives was to set up a Department of Planning and Urban Development, tasked with creating a credible development strategy.[19] This Strategic Orientation Document (DOS) specified the vision, values, commitments, roles, and responsibilities of the city of Dakar, aiming to place Dakar as the economic and cultural capital of West Africa. To do so, the DOS set specific strategic goals with defined objectives - both in the medium term (2012 - 2017), as well as long term (to 2025).

A key challenge was aligning these strategic plans with the municipality's budget, given the reliance on the central government for collection and disbursement of revenue. The city's inability to accurately forecast when revenues would be made available from the central government resulted in difficulty planning payments for investment projects, and matching expenditure outflows with revenue inflows.

Enhancing operational systems

The Public-Private Infrastructure Advisory Facility's (PPIAF's) Sub-national Technical Assistance (SNTA) programme had been present in Dakar since 2008, initially as the Public Expenditure and Financial Accountability (PEFA) programme. The programme itself provides technical assistance to develop public financial management skills, implement debt-related financial transactions, and other fundamentals to improve credit ratings. In 2019, Senegal was one of only thirteen sub-Saharan countries which had a sub-national government partake in the programme. Furthermore, Dakar was one of only nine sub-national governments to have made their audits and evaluations public, aiding investor confidence.[20]

The DMFP also applied their training to build on this during the bond preparation process, supported by a grant from the Bill and Melinda Gates Foundation. There was a coordinated effort to design and implement appropriate budgetary and financial management tools, with the aim that the city could analyse revenues, expenditures, cash flows, and assets. The team built a framework based on revenue (both base and recovery), financial management (particularly cost management), and multi-year investment planning and public procurement management, to improve the systems within which the staff were working. This is described in more detail below.

Realising the potential of investment in improving infrastructure

Accessing infrastructure funding is tricky for many developing cities. Beyond regulatory restrictions from the national level, this is primarily due to a lack of capacity in cash-flow and debt management, thin credit histories, and absence of strategic planning and competent administration.[21] Dakar was no different, but as described above, with strong leadership and external assistance, the city was able to build its creditworthiness to be eligible for concessionary and commercial loans.

The city had the further benefit that, according to the 1996 decentralisation law, local authorities are allowed to enter into debt agreements for investment with financial institutions without national government intervention. This also enabled the city to get close to launching one of the first municipal bonds in Africa, which was particularly pertinent given its lack of control over other revenue sources and the subsequent need to diversify.

Concessionary loans

As a result of the PEFA reforms described in the section above, in 2009 the city was able to secure its first 20-year concessional loan of US$12

A busy street in Dakar, Senegal © Shutterstock million from the AFD to finance the refurbishment of existing streetlights as well as invest in a further 1000 solar streetlights. The agreed-upon loan had favourable terms, with an interest rate of 2.23 per cent and a 7-year repayment grace. These terms allowed the city to go through the motions of project development, debt structuring and honouring its repayments without being in a high-stakes environment. In doing so, the city gained valuable experience in further enhancing its systems and capacity. It also had a chance to prove its creditworthiness to others.

Following the success of the AFD loan, in 2012, the city of Dakar also borrowed at a slightly higher rate from the West African Development Bank for the construction of roads and parking areas. This loan was for US$18 million over 13 years at 5.5 per cent, with a three-year grace period.

Commercial loans

The success of the AFD loan also paved the way for the city to take on a few small commercial loans, albeit with more stringent conditions and higher interest rates. This debt included a 2011 loan from the Islamic Bank for traffic lights for US$4 million over three years at an interest rate of 8.5 per cent. Further to this, a 2012 loan of US$7 million was taken from the Ecobank of Senegal to rebuild a downtown market. These terms were for a five-year loan at 9 per cent interest, with a two-year repayment grace.[22]

The ability to pay off a market-rate loan, even if for smaller amounts, further increased confidence in the creditworthiness of the city. However, commercial bank borrowing is restricted to CFA 10 billion (US$17 million) with a short repayment period and several other conditions, making it unsuitable for larger and more long-term investments.[23] A municipal bond was therefore an attractive alternative.

The municipal bond

In late 2011, the city of Dakar began exploring whether a municipal bond was an option for financing future projects in the city. The hope was that a bond would enable the city to borrow a large lump sum at a lower cost than through commercial loans, and with more flexibility than a concessional loan. It would also signal that the city was confident in its ability to manage significant revenue-generating investments. After careful review of the constitution and consultations with experts and national government representatives, it was determined that a bond issuance at the city level met all legal requirements.

The Bill and Melinda Gates Foundation were key partners in making this idea a reality. After initially hearing Mayor Sall speak at an international conference, the Foundation funded an initial US$500,000 scoping grant to conduct a feasibility analysis. They deemed Dakar to be a city with suitable potential given the development of the DOS, a high-capacity team, and strong track record with international loans.[24] Their goal was to improve the quality of life for the urban poor through mobilising finance in the regional capital market, as well as test the municipal bond process in order to replicate it to solve development challenges in other African cities. Although the bond ultimately did not launch due to complications with central government approval, the process in itself ended up improving the city's financial position.

1. *Building creditworthiness*

The most fundamental aspect of preparing for the bond was laying the groundwork in terms of building creditworthiness. This expanded on the progress made as a result of the PEFA process, as well as the experience gained in managing both concessionary and commercial loans. However, investing in internal creditworthiness reforms year after year can become difficult for the city to justify given the returns to the public are long-term, leaving minimal potential for short-term political gain. The role of the Bill and Melinda Gates Foundation, and later Cities Alliance, was therefore crucial in investing in these processes. The Foundation extended their 'scoping grant' with a delivery grant of US$5 million for a six-year programme (2011 – 2017) to improve financial management systems, alter the city's approach to planning, and influence investor's perception of the city's creditworthiness.

The international ratings agency, Moody's, was brought in at the outset to provide a confidential credit rating for the city. This was used as a benchmark against which to measure improvements before obtaining the official public rating, and provided a roadmap for improvements. Key areas such as 'quality of debt data recording and reporting', and 'scope and frequency of debt sustainability analysis', received low grades of D and C respectively. These became focus areas for reform. A local ratings agency, Bloomfield, was then selected to conduct the follow-up rating. In September 2013, Dakar received an A3 short-term investment grade rating and a BBB+ long-term rating.[25] The report showed that compared to the previous year, revenues had increased, operational costs had decreased, and loan repayments were in order, resulting in an overall net budget surplus.[26]

2. Envisioning a bankable project

The project conceptualised for the bond was a formal market for local traders. It was known as the 'Petersen commercial zone' and would cover 10 hectares in the northern extremity of the Dakar-Plateau commune.[27] It was designed to be affordable and safe, with facilities for over 4,000 street vendors. While the lower levels were reserved for subsidised stalls and kiosks, the upper floors would house credit agencies and other market-related services used by the traders to improve the ease of doing business and access to finance. Figure 4 below shows the conceptual design.

The market was also part of a strategy to re-organise the city centre, diverting activity from downtown Dakar where the street traders exacerbated traffic congestions. The World Bank estimates that Dakar's traffic congestion, exacerbated by unregulated street trading, costs CFA 108 billion (US$216 million) in lost income a year.28 The inclusion of off-street parking in the design aimed to reduce associated idling traffic or unregulated parking while cars stop to purchase goods from street traders.

The project's anticipated cost was US$40 million, with 25 per cent allocated to acquiring the land and the remaining 75 per cent to the design and construction of the marketplace.[29] Importantly, since market fees are one of the only revenue streams collected by the city of Dakar, they had greater oversight over this income for the purposes of repaying investors.

However, some stakeholders believed the market would not succeed as sellers would not be able to afford the relocation, and that the centralised closed-off space disrupted the very thing the street sellers thrived on: mobility and flexibility to reach their customers. This lack of demand would result in the market being unable to generate the income streams required to repay the bond. To avoid this, the city moved to ban street trading, which was highly controversial and ultimately unsuccessful due to the strong resistance.[30]

In the design of all city investments, there is often a trade-off between pro-poor and pro-return projects. Many felt that this particular project emphasised an idealistic vision of empowering the poor, without considering how to achieve a suitable return. While the project was in keeping with the Mayor's drive to amplify the voice of the city's urban poor and the desire of the Bill and Melinda Gates Foundation to deliver a project with social impact, in the process however, it may have lost bankability.

Figure 4: Dakar's Petersen Commercial Zone

Source: Dakar Municipality

3. *Designing the bond mechanism and reducing risk*

Over and above achieving creditworthiness and designing a bankable project, the issuing authority, the Regional Council for Public Savings and Financial Markets (CREPMF), also had requirements that needed to be met. These largely revolved around providing investors with sufficient security and knowledge that they would see repayment. Revenues generated from the investment can easily be repurposed into the next project of political importance rather than being kept aside to repay investors. Dakar therefore took further steps to reassure investors by ring-fencing revenues.

A Special Purpose Vehicle (SPV) called 'Société de Patrimoine Immobilier de la Ville de Dakar' or SPID S.A. was created to be the custodian of the asset funded by the municipal bond. SPID S.A. was responsible for running the project, collecting the fees, and securing revenues in a private account. It was also meant to be the liaison between the city, the private sector, and the public. This vital separation and streamlining of funds from the broader city budget was a recommendation of the Minister of Finance, and assisted in increasing investor confidence as funds could not easily be used for non-project related expenses.

Although all regulatory requirements had been met, the city of Dakar went a step further to secure a 50 per cent guarantee from USAID under its Development Credit Authority (DCA). This meant USAID would repay at least half of the investor's capital if actual revenues from the project did not match expectations. Since it was a non-sovereign bond, the DCA could not provide a full guarantee, and instead required the City of Dakar to create a reserve fund to finance the initial repayments. The city therefore placed a coupon in a private bank, amounting to one year's interest on the bond, which provided a first-loss guarantee to investors and ensured no liability for the central government. The DCA guarantee and reserve fund implementation saw the bond quality improve to an A-rating, which in turn improved the marketability of the bond by assuring investors of reduced risk.[31]

In further attempts to reduce risk, bondholders received clearly defined legislation and regulations. This included the fact that bondholders may automatically group together in defence of their interest, in a body with a legal personality. Furthermore, the regulations of West African Economic and Monetary Union (WAEMU) Regional Market and those of the Organisation for the Harmonisation of African Business Law (OHADA) would govern disputes. This system of corporate law, adopted across countries, brought more certainty to investors – particularly the knowledge that any dispute between investors and the city of Dakar unable to be settled amicably in three months would be entrusted to the Common Court of Justice and Arbitration (CCJA) of OHADA, located in Abidjan.

4. *Bond repayment terms*

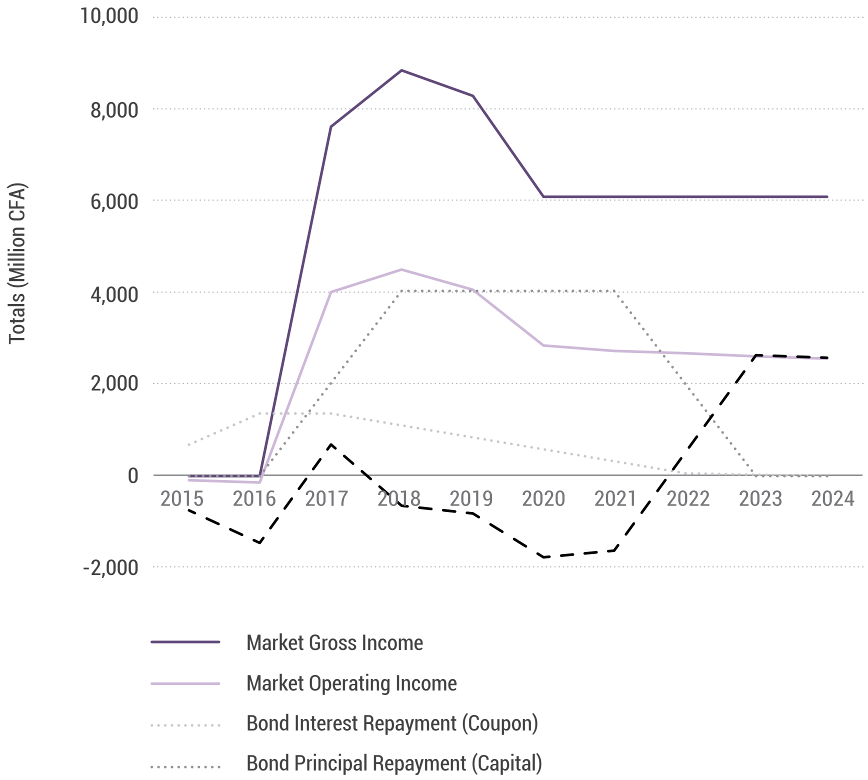
The wide-ranging creditworthiness reforms combined with investment guarantees saw the municipal bond of US$40 million become viable at an annual interest rate of 6.6 per cent with a seven-year maturity. This rate was below the 8.5 per cent paid on Islamic Bank of Senegal's three-year commercial loan, but more stringent than the AFD's twenty-year concessionary loan at 2.23 per cent.[32] The low-risk profiles meant they did not need to be compensated considerably in the event of financial loss.

Critically, Dakar's bond also allowed for a two-year delay in principal repayments. This allowed for the proposed market to be built and expected revenues to be realised before the payments kicked in. After the grace period, Dakar would repay the principal amount and interest accrued, in ten payments over five years.[33] Without this stipulation, the city would have been required to repay investors out of other revenue sources such as property tax, putting more financial pressure on the budget, and reducing overall project viability.

Matching bond maturity with investment cycles is of critical importance to ensure the sustainability of finances. In Dakar's case, the bond had a seven-year maturity, similar to many other subnational loan offerings of 3 – 10 years. Meanwhile, typical infrastructure project life cycles are 20 – 30 years.[34] If a city has to repay large amounts of investment capital quickly, it may not be able to match relevant revenues from project user fees (in this case market rents) to make the investment viable.

Figure 6 below shows the anticipated revenue and associated debt service costs for the market. By 2023, after servicing debt, the expected revenue (gross income) was CFA 6 billion (US$10 million) and operating income (post-operating expenses) was over CFA 2.5 billion (US$4.2 million).[35] The latter figure is equivalent to about four per cent of the city's 2020 budgeted revenue. Repaying the capital throughout the bond lifecycle brings two benefits. Firstly, future administrations are not left to repay the entire principal, thereby aligning current and

Figure 5: Expected revenue of market and repayment of municipal bond, 2015 – 2024



Source: Data from Ville de Dakar (2015)

future policymaker interests. Secondly, it can smooth cashflow – paying with current revenues removes the need for a sinking fund to build up revenues to pay at the end of the bond's cycle.

5. *Domestic demand*

Once all the requirements for the bond had been met, it was time to begin marketing the bond and conduct an investor roadshow. A Dakar-based firm was tasked with coordinating this, including placing the bond with 18 financial intermediaries in the 8 West African Economic and Monetary Union (WAEMU) countries. Dakar benefitted from strong domestic demand for the bond for several reasons:

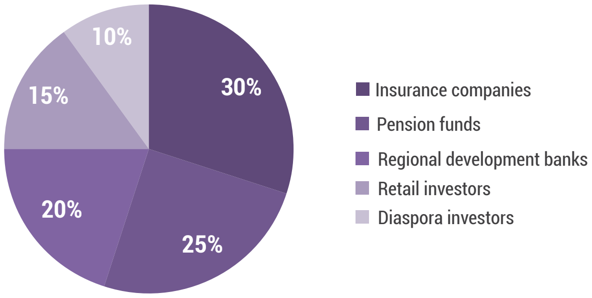
- Senegal's central government had been issuing bonds on the local market since 1996 under the Regional Council for Public Savings and Financial Markets (CREPMF).[36] Therefore, there were specific rules, regulations and expectations that already had precedence. In addition, the macroeconomic environment was steady relative to other countries in the region.

- Dakar was aiming the launch of its bond on the Abidjan-based regional securities market, 'Bourse Régionale des Valeurs Mobilières' (BRVM). As a financial and regulatory hub for the 14 francophone countries of Central and West Africa, BRVM enables consistency in regulations across the member countries. There was, therefore, a much broader base of potential investors, pension funds, and other buyers that could invest in the bond, with no currency risk. Similarly, rules, regulation, and norms around bond issuance, municipal or sovereign, were shared and had some historical precedence. These are critical for replicability of municipal bond issuance in the region.

- Dakar leveraged public participation and engagement in preparing for the bond. Internal weekly city meetings between departments ensured there was a common narrative being weaved, and the city's communications department would then relay this to the citizens to help them understand what the city is doing for its residents.[37] This lengthy process of consultation with citizens culminated in a 'public call for savings', asking citizens to invest in the bond, and thereby invest in their city's future.

- In order to better facilitate this, the city set the lowest denomination of investment at CFA 10,000 (US$18) compared to CFA 1,000,000 (US$1,400) in Douala's bond transaction and ZAR 1,000,000 (US$159,000) in Johannesburg.[38] This low requirement allowed a large section of Dakar's population, both individual public investors and private institutional investors, to be able to buy into the bond. The demand was so high that during the investor roadshow, members of the public would approach the bond administrators with cash from their pocket to purchase a part of Dakar's future. Figure 7 below shows that 15 per cent of primary issuance demand was expected to come from these small-scale retail investors.

Figure 6: Expected distribution of Dakar's municipal bonds in the primary issuance



Source: Adapted from Gorelick, J (2018)

6. *Failure to launch*

By 2015, the city had completed all regulatory steps required to issue a bond, as well as having built sufficient demand from investors. In February, the CREPMF issued the visa authorising the city to proceed. However, despite receiving pre-approval on three separate occasions, the central government withdrew its written consent on the eve of the launch. This last-minute withdrawal was based on constitutionality and concerns about the municipal debt's impact on overall country indebtedness. They were also cautious that the bond was too innovative, and that the national government was not in a position at that time to support the engagement with the risks involved.

However, it was also deemed by some to be purely a political move. The threat of an opposition-led commune, with a recently re-elected Mayor gaining such financial independence, did not bode well for the ruling party. The lack of clarity over the legal basis for the central government withdrawing consent resulted in the city of Dakar filing a lawsuit against the central government. Although this was unsuccessful in overturning the state's opposition, there has been no blanket ruling against municipal bonds in general, leaving their overall future in Senegal very unclear.

Despite the municipal bond ultimately not being launched, its preparation still brought substantial benefits. Improved financial management contributed to increasing the city's revenues by almost 40 per cent between 2008 and 2012.[39] As a result of the city's ability to enhance and directly prove its creditworthiness, borrowing became an indispensable tool for financing local development for the city of Dakar. Furthermore, for many large infrastructure projects, longer-term concessionary loans such as the one from AFD over 20 years, and the West African Development Bank over 13 years, were in many ways, found to represent a better-aligned funding and investment model.

Capturing land value and unlocking dead capital

Since the failure to launch the municipal bond, a number of other (more basic) municipal finance reforms have been piloted by national government stakeholders in partnership with various communes; in particular, a new process for administering land and property taxes. Dakar is unusual in pursuing innovative infrastructure investment mechanisms before capturing land value, largely due to the latter being outside the remit of the city government. However, just as in other cities, rapid urbanisation and considerable investments in real estate, both in Dakar and Senegal more broadly, offer large, mostly untapped, revenue potential.[40] Efforts to leverage the city's land value are explored in more detail below.

Land and property tax

While property taxes offer massive potential for local revenue, they continue to be an immensely underutilised mechanism in Senegal. Property taxes currently amount to 0.4 per cent of GDP, which, although up from 0.1 per cent of GDP 2016, remain far below their 2 per cent potential, as calculated by the IMF.[41] By comparison, this is equal to the prospective estimated revenues from the Senegalese oil sector.[42] Similarly, property taxes make up only 2 per cent of all tax revenues in Senegal, compared to an average of 9 per cent in OECD countries.[43] The assertion during stakeholder engagements was that this results from the fact that only 60,000 out of the 1.8 million properties in Senegal are paying property taxes.

Cadastral and fiscal data from 2018 shows that of the roughly 110,000 plots registered in the commune of Dakar (not the entire city), less than a third have registered properties. Other Dakar communes, such as Rufisque, have closer to 25 per cent of their properties on the Contributions Foncieres roll. Places of worship, schools, public buildings, and owner-occupied residences with annual rental values below CFA1.5 million (US$2,700) are exempt. This loss of potential revenue is compounded by low levels of compliance of around 12 per cent, with many people stating that either they were not aware they had to pay property tax, or did not receive any notices. While there are some penalties provided for in the law, including interest on arrears, or seizure and auction after demands and warning procedures have been exhausted, in practice these are not enacted.[44] As a result, only 20 per cent of the potential revenue from property taxes in Dakar are collected.[45]

Property, its valuation, and tax assessment are under the remit of the Directorate General of Taxes and Domains (DGID - the national tax administration), with the National Treasury being in charge of billing and payment collection. Municipalities assist through the sensitisation of taxpayers and identification of property owners, thereby helping to maintain the valuation roll.

The taxes are levied on improved and unimproved property, along with a surtax on unimproved land. Central government legislation has fixed the rate of the first two at 5 per cent of rental value, and 5 per cent of market value, respectively. The surtax on land has different rates depending on market value tiers – in Dakar's communes, these vary between 1 per cent and 3 per cent.[46] The central government's control over setting property tax rates and their collection leaves no room for local government discretion to progressively charge wealthier areas, or those areas receiving more public services, higher rates.

The historically used system relies on property owners to annually declare their address and its rental value to DGID. Where these declarations are not updated, previous declarations simply rollover from preceding years with no update in valuation.[47] There

Retba salt lake near Dakar, Senegal © Shutterstock are not enough resources to enforce this system, both in terms of detecting undeclared properties, as well as in verifying values. Furthermore, not all houses are formally captured within the addressing system, and even when they are, it is often not used. This weak data foundation makes accurate billing extremely difficult. While administrators do undertake infrequent fiscal census's, there is no standardised protocol, the information is manually collected and imprecise, and there is no link to cadastral plot identifiers.[48] Furthermore, recorded values are often bargained by agents and taxpayers rather than using a certified methodology.

In response, researchers are piloting a modernised property tax management system. It is being implemented and rolled out as part of a Randomised Controlled Trial (RCT) throughout the region of Dakar. The programme includes a comprehensive survey of all households on their tax affair, as well as the digitalisation of the cadastral and addresses information. It then uses a new application to automate the data analysis process, compute tax liabilities, and produce tax notifications. A semi-automated method to value properties on a mass basis is also under analysis. This method is similar to the one used in Kampala – using observable characteristics of the households to predict a relative valuation.[49]

In order to fully realise the potential of property taxes, communication and sensitisation of residents is critical for compliance. They need to understand how to comply with processes, and more importantly, what the city is spending their tax money on. The Bureau des Collectivités Locales and the Local Fiscality Commissions are integral players in this regard. The approach used is described in the section on 'improving the regulatory environment for access to finance' below.

Although the trial is still in progress, the results from the baseline data confirm the undervaluation of properties currently in the Dakar register. In addition to the direct benefits, digitalisation of the system has resulted in better coordination between the different government entities, reduced information losses, and increased institutional memory.[50] The data collected also creates a repository of information to draw upon, for example, by the authorities in charge of urban planning and housing. The trial is currently taking place in three communes but will extend to other areas of the region after the experimentation phase. The ultimate goal is to have full automation integrated with other land systems, such as building plan authorisation, so that when residents register to build new properties, their details are immediately recorded on the tax register as well.

Leveraging public land for commercial activities

The National Domain Law of 1964 declared about 97 per cent of all land in Senegal as state-owned, with its classification varying between urban, agriculture, pioneer or non-disclosed zones.[51] Much of the governance of this land is decentralised to municipalities.[52] As a result, the city hopes to increase revenues going forward by leveraging its land assets – partnering with the private sector to build commercial entities on public land that generate income for the city. There are currently three big commercial centres in Dakar, an example being the Dakar business centre, although it was envisioned that this could be extended to hotels and apartments as well. As with the bond, SPID S.A. would be the financial vehicle used to invest in those projects, in order to isolate the financial risk and allow for financial partnership with the private sector.

Improving the regulatory environment for access to finance

A number of local administrators felt that the central government undertook and enacted significant legislative reforms without their inclusion. Most notably, the 'Acte III de la Décentralisation' of 2013, which increased local government responsibilities while decreasing the available financial and human resources. This created adverse incentives for the local governments who were tasked with delivering change. They were either knowledgeable of the requirement and not motivated to deliver, or were unknowledgeable of the requirement and therefore unable to deliver. Both represent challenges for decentralisation and enhancing financial positions of cities.

Perhaps the height of misalignment between the city of Dakar and the central government was in March 2017, when Mayor Sall was arrested for allegedly embezzling public funds worth CFA 1.8 billion (US$3 million). This was met with much resistance in the city, resulting in him being finally pardoned by presidential decree in September 2019. However, in recent years, a number of initiatives have been undertaken to improve vertical coordination in government, most notably the Bureau des Collectivités Locales and their Local Fiscality Commissions. The ongoing issues with the Decentralisation Act and the recent initiatives to improve coordination are elaborated upon below.

The Decentralisation Act

The most recent phase of decentralisation, 'Acte III de la Décentralisation' of 2013, has been marred with difficulties. A 2015 evaluation of the first phase of implementation highlighted complications around the limited tax base of many small local governments throughout Senegal, the lack of clarity over the division of responsibilities between cities and departments, and the difficulty caused by fragmentation of local governments in the greater Dakar area. In 2019, the following issues were still identified as critical problems:

Structure of public services: Acte III saw nine areas of competence either totally or partially transferred from central departments to local government, depending on capability. These included environment and management of natural resources, health, population and social action, youth, sports and leisure, culture, education, investment planning, land-use planning, and housing and urban development. Building its technical capacity was vital for the local government to adequately deliver these services. However, as was the case in Dakar, if the function of public service delivery is decentralised without matching fiscal decentralisation, then local governments will struggle in building their capacity. At the same time, when local governments then show weak capacity in service delivery, the central government will be hesitant to devolve these responsibilities, leading to a vicious cycle.

Revenue capacity: As described in the municipal finance overview, Dakar's revenues have noticeably declined since the implementation of specific changes associated with Acte III. Acte III's Phase 1 saw the delivery of changing legislation; however, the implementation of these changes in Phase 2 was more fraught with difficulty. In particular, the creation of more communes in an attempt to achieve increased regional equity saw revenues being split in a greater number of directions, reducing the amount going to the commune of Dakar. Furthermore, given the high proportion of economic activity (and the attendant revenue) generated in Dakar, tax redistribution mechanisms were put in place such that new communes and other cities could receive some of this revenue for their development as well. With almost all local taxation collected at the central government level, this reallocation and redistribution could straightforwardly happen.

Human capacity: With the increase in the number of municipalities from 172 to 557, the city of Dakar's staff also had to be divided and shared. Pre-Acte III, the city's workforce was 3,324 employees, which reduced to 1,688 as administrative boundaries declined and the department was further divided into more communes. However, this transfer of staff coincided with increased service delivery responsibility leading to additional pressures.

In short, despite decentralisation first occurring in Senegal in 1872 with the country's first commune, no sufficient fiscal decentralisation has taken place. This means that although local governments have increased responsibility, they continue to have little autonomy in enacting that responsibility due to fiscal constraints. Subsequently, in order to enhance the financial position of cities, a focus on capacity building as well as support for adequate fiscal decentralisation is needed. This requirement should be part of a comprehensive process of acknowledging and strengthening the role of local governments as core political and institutional players in national development.

Coordination initiatives

Despite these ongoing issues, some attempt at progress has been made. **The Bureau des Collectivités Locales (BCL)** is an initiative of the DGID, created in 2016 as a way for the central government to more directly engage with local governments in order to enhance future revenue streams and local collection. They are taking steps to align the Acte III decentralised responsibilities with the required finances to deliver them. The unit is working to enhance the collection of all taxes that will eventually find their way to the Municipality, with a current focus on property taxes as described above.

One initiative of the BCL is the **Local Fiscality Commissions (LFC),** the creation of which was intended to improve connections between central government, local government and their taxpayers, thereby overcoming the barriers of information sharing. They are small groups made up of civil society, neighbourhood representatives, and political councillors who together are involved in local-level sensitisation campaigns to enhance tax buy-in and compliance. Members are trained by the national tax administration (DGID) on the technical aspects of tax collection. With this knowledge, they can correctly identify taxpayers and their properties, essentially becoming fiscal representatives on the ground.

The construction of these LFCs also results in considerable reform for participatory processes within government, creating more substantial buy-in from citizens in public sector activities. Simply changing technical systems or using technology to automate processes, while creating substantial efficiency gains, does not account for the human element of tax payment. The LFC will feedback into the systems with citizens' perspectives, as well as communicate how the city is spending their taxes. Particularly, how this spending positively affects the value of resident's land and property assets. Therefore, while the LFCs are still finalising direct incentive mechanisms, they have great potential to be a significant part of own-source revenue reform in Dakar.

However, since their establishment, the LFCs have only been set up in three communes in Dakar, where the political alignment is with the central government. Many of the other fifteen which are aligned with the opposition, had not yet heard of the initiative. However, it is slowly being expanded: Dakar commune (one of the 19 communes within the Dakar district), mentioned in February 2020 that its first engagement with the BCL would be in March 2020.

Aerial view of Dakar, Senegal © Shutterstock

Lessons, success factors and priorities for future reform

The city of Dakar, although failing to ultimately launch one of the first African municipal bonds, has made significant progress in achieving creditworthiness. This has been essential in unlocking potential in terms of both commercial and concessional loans. The city's relative independence in taking on debt is surprising, given that all own-source revenues are administered at the national level, as are all municipal expenditures. Overall, the city of Dakar provides an important example of the need for buy-in at the national level, and the importance of the political landscape in effecting any innovative reforms. Fortuitously, the national government is now focussing on improved land-based revenues and coordination with the municipalities. Some of the key lessons and success factors, as well as the aims for future reform, are detailed below.

Lessons and success factors

Visionary leadership: As with most of the case studies in this series, the reforms for enhancing the financial position of Dakar were predicated on strong leadership. The Mayor's ability to convince external partners to invest, as well as his commitment to building capacity to internally transform the city, were significant drivers of change. Even more important was the emphasis placed on building relationships with the city's residents. However, he simultaneously also had many critics, and as a reformist opposition leader, was a potential threat to the national government. The Mayor was controversially arrested in 2017 for allegedly embezzling public funds, and then pardoned by Presidential decree in September 2019.[53]

Highly skilled, autonomous team: A specialised team, the Dakar Municipal Finance Programme (DMFP), was appointed in 2012 to deliver on the Mayor's vision for a financially autonomous and prosperous city. The team had direct accountability and access to the Mayor, and operated outside of typical bureaucratic limits. Once internal capacity had been built, a taskforce of technicians as well as external experts came together to form an observatory – a collective cross-government and cross-sector team with one desired output: to develop a tangible project worthy of external financing. In addition to on-the-job learning, staff were given access to training in Marseille and city visits to Douala and Johannesburg, which had already issued municipal bonds.

Building creditworthiness: Although the bond did not ultimately go ahead, the groundwork that led up to it was a significant success factor in achieving both increased revenues and greater diversity of finance mechanisms over the 2008 to 2015 period. This increase is particularly noteworthy in Dakar's case, given the limited control the city has over the management of own-source revenues. From an overhaul of systems and capacity through the PEFA programme, to gaining experience through concessionary and commercial loans, and undergoing credit rating assessments and recommendations, the city has drastically strengthened its financial management capabilities.

Development partner support: From the outset, the World Bank-administered PPIAF was crucial in assisting with the groundwork to increase the city's creditworthiness to an investment-grade level. The Bill and Melinda Gates Foundation, and later Cities Alliance, were also instrumental in supporting Dakar's journey to launch the municipal bond. The foundation offered an initial US$500,000 scoping grant to analyse the feasibility of launching the municipal bond, and subsequently added another US$5 million delivery grant for a six-year programme to improve financial management systems and city planning. USAID's Development Credit Authority also supported by acting as a guarantor for 50 per cent of the bond, which was critical in lowering the bond's risk profile and ensuring the interest rate was feasible, both to local investors as well as for the city's repayment.

Development partner support also extends to the concessionary loans given at preferential rates by AFD and the West African Development Bank. These were not only crucial to investing in the necessary infrastructure for improving liveability and productivity in the city, but were also integral in embedding financial management operations in the city and improving investor confidence.

Enabling regulatory environment for sub-national debt: Overall, the regulatory environment in Dakar is severely limiting, given the lack of control the city has over its financial resources. However, compared to its peers, it is unusually free to take on sub-national debt with relatively few restrictions from the national level. While politics continues to be a factor that influences the options available, and processes still need to be clarified and tested with more 'innovative' financial tools such as the municipal bond, the city has successfully been able to enter into agreements with both concessionary and commercial lenders without national government involvement.

International exchange: The Abidjan-based regional securities market where the bond was set to launch – 'Bourse Régionale des Valeurs Mobilières' (BRVM) – was critical in designing a viable bond. As a financial and regulatory hub for the 14 francophone countries of Central and West Africa, BRVM provides a much broader base of potential investors, pension funds, and other buyers that could invest in the bond, with no currency risk. Furthermore, rules, regulations, and norms around bond issuance were shared and had some historical precedence at the national level. This would also have been beneficial for replicating the municipal bond in the region.

Strong domestic market: The central government has been issuing bonds on the local market since 1996 under the Regional Council for Public Savings and Financial Markets (CREPMF), and so precedence had been set. Specific rules, regulations, and expectations were therefore already in place. The macroeconomic environment was also relatively steady. Furthermore, due to widespread communication and public participation efforts, there was strong demand from small retailers and individuals too, who wanted to share in this vision of the city's future.

Priorities for current and future reform

Clarity over decentralisation: As noted throughout this case study, the latest Decentralisation Act has left a gap between the devolution of responsibilities and the devolution of finances. It has also resulted in a lack of clarity over the specific roles of various stakeholders. Enhancing Dakar's financials required incentives to be aligned. Currently, the national government has no urgent need to increase the efficiency of revenue collection, as it is not responsible for the services that need to be delivered – its reputation and social contract with residents are not on the line. Given the existing regulatory environment, encouraging the central government to optimise revenue collection for local governments is an area highlighted for development partner support. This optimisation should be considered as part of a comprehensive process of acknowledging and strengthening the role of local governments as core political and institutional players in national development.

Vertical government coordination: Noting the above, the national government is currently making attempts to improve coordination through the Bureau des Collectivités Locales (BCL). The BCL is an initiative of the DGID, created in 2016 to better engage with local governments, as well as to enhance future revenue streams and local collection. An initiative to connect the national government to both local governments and residents has been the setting up of LFCs. However, these need to be more widely leveraged, as many communes were not yet aware of these initiatives in 2019.

Better-leveraged land assets: A current project of the BCL is to reform how property tax is administered and perceived within the city. An experiment underway to modernise and automate property tax-related systems and better integrate them between different actors has shown successful results, and should therefore be expanded to more communes. Furthermore, partnerships with the private sector to use public land for income-generating commercial centres was also highlighted as a key focus area. While the city of Dakar owns a large amount of property and land to enact this, the true extent of these assets in not yet known. This means that Dakar might be under-leveraging, under-coordinating, and under-capitalising these land assets.

Clarity on debt legislation: Clarity on different debt mechanisms allowable and the necessary debt guarantees is a major regulatory challenge for future access to finance. Often, laws in sub-Saharan Africa regarding local government finance were drafted before capital markets were fully functioning and accessible. Furthermore, markets, norms, regulations, and expectations have not had time to develop through 'learning by doing'. In Dakar's case, understanding where the line is drawn in terms of the city's autonomy in debt financing, as well as how this differs between loans, municipal bonds, and other future mechanisms, is essential for investors to know where they stand.

Building capacity for bankable projects and plans: Some stakeholders in Dakar believed that the lack of financing is not the penultimate restriction for utilising investments to enhance its financial position. Instead, a more fundamental challenge is that the plans and projects proposed for financing are not bankable. This issue is a global one: 'The Business 20' (B20), a global business community contributing to international policy discussions, stated that the investment gap in infrastructure is not the result of a shortage in capital.[54] Developing such plans and projects requires strong technical capacity and experience. Thus, while blending finance and capital guarantees are important future financing elements, assistance in producing detailed bankable urban plans and projects should take precedence.

Continued loan and bond potential: The benefits of building creditworthiness did not stop with the failed launch of a municipal bond. Since 2009, the incrementally higher capacity of systems and staff have marked Dakar as a city that can pay back its debt. Therefore, both concessionary and commercial loans, exemplified through the successful non-defaulting loans with AFD and Islamic Bank, represent considerable opportunities for the city. A future bond is also still in the pipeline, but the city is not actively looking into it until the political and legislative environment is clearer.

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