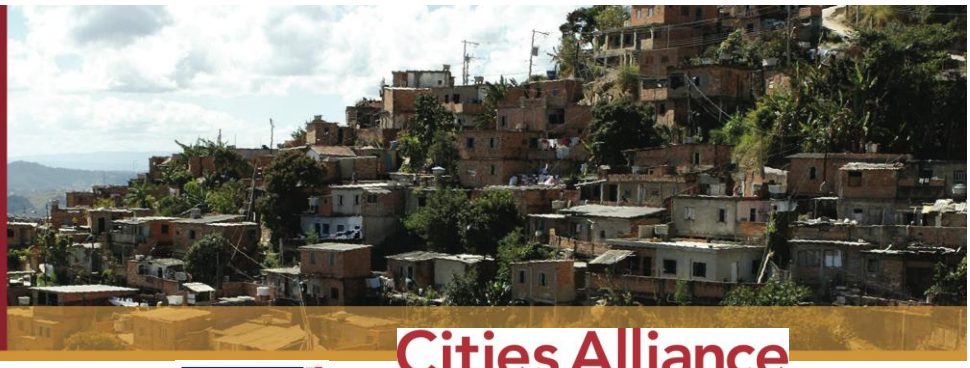
CITIES WITHOUT SLUMS



Cities Alliance
Cities Without Slums

Financing Africa's Cities

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African countries are confronted with vast economic, social and environmental challenges. The continent is experiencing the world's highest rate of urban expansion; the next twenty years will see more than 300 million new inhabitants in sub-Saharan cities. Accommodating that scale of population increase would be comparable to building – within two decades – new cities large enough to house the United States' entire present population. Africa's massive urbanization will necessarily increase the importance of urban issues and their financing in public policy. Yet, while urban issues bear upon many of these challenges, they have remained a secondary priority for governments and the international community. The growing gap between infrastructure and services already built and those needed justifies a drastic change in the scale of urban financing. As national and local governments, along with their supporters in the international community, pursue efforts to increase local governments' solvency and infrastructure capacity, they must also rethink their forms and systems of financing urbanization.

The book has been realized through a Four -Year Project to address the issues of financing the urban growth in Africa and through the secondment of Thierry Paulais (AFD) as a senior urban finance specialist to the CA secretariat. The project was jointly financed by AFD and the Cities Alliance.

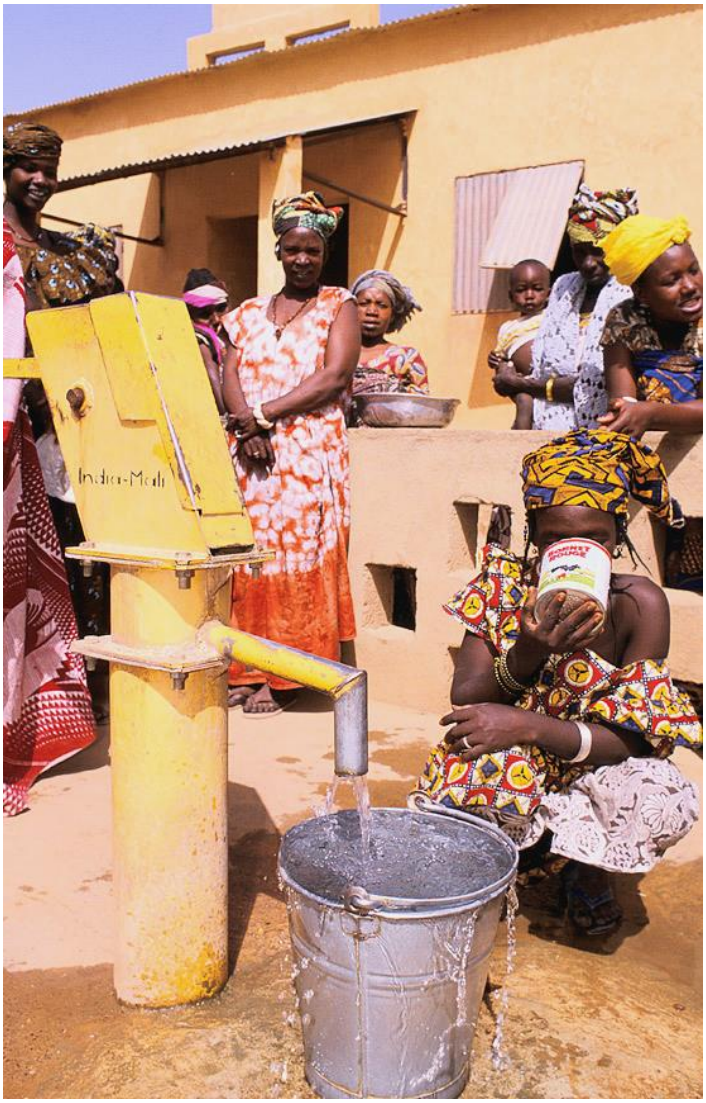
The book is organized into five parts and includes an appendix with eight concise case studies.

Part I addresses fundamentals - the techniques and principles governing the field of financing local investment. It starts by defining "local investment" and describes a set of themes and methods central to operational practice – notions such as collective action and collective project sponsorship and management, an agglomeration's powers, various ways of financing local investments, strategic planning, and financial forecasting. Financing techniques and relatively new or recent special financial products, such as those related to climate change issues, are reviewed.

The book supplies a synthesis of public investment economics and summarizes debates about the relationship between economic growth and local investment, and about how economic theories legitimize and justify local-government borrowing. It reviews investment analysis, selection and strategic programming principles, the elements that constitute governance at the local level, and the operational aspects of a contractual approach. Part I further surveys the various forms of local government financial analysis, and compares their relevance in each context before concluding with some lessons from the financial and economic crisis of 2008 that directly relate to local investment issues.

Part II analyzes urbanization and sectoral policies in Africa and looks successively at changes in Africa's economies, demographics, urban growth projections, and the social and economic opportunities and issues raised by urbanization. It examines new human and economic challenges likely to arise from climate change, and look at financing for adaptation and mitigation efforts. Part II also explains the key factors affecting the land question in Africa, which often constitutes a stumbling block for urban policies. It presents an analysis of the land-development and housing sectors, and their economic impacts as well as their dysfunctionality. It reviews different methods used to estimate funds needed for infrastructure investments, and compare their results. Part II concludes by proposing a theoretical estimate of required funding based on regional growth projections and different hypotheses about standards for urbanization and basic services.

Part III is dedicated to Africa's decentralization, basic services provision and local governance issues. It first situates the decentralization movement within an administrative, political and budgetary perspective, and then analyzes the evolution of local governments' institutional landscape. It next estimates local governments' financial capacity and borrowing ability based on certain hypotheses. Part III also exposes the social and economic issues surrounding the organization, management and financing of basic services. It examines urban governance issues and how they affect local governments' capacity to implement investments. Finally, it addresses the key concern of "fragile situations" across Africa, and proposes a new variant, the "fragile city."



Part IV examines local governments' investment financing frameworks as currently used in Africa, and new, recently-emerged sources of financing. It presents local-government financing and financial systems, and their investment financing options. It goes on to examine the role of banks and regional or national development-finance insitutions, and how their forms and roles could evolve. It then describes the range of available local financing tools and mechanisms, and reviews public-private partnerships and their results from the last few decades – especially in urban environments – proposing a reading of how they may change in the future. It next describes the roles and respective importance of new and increasingly major funders – such as philanthropic foundations, emerging countries (China in particular) and sovereign-wealth and other investment funds. It analyzes how carbon finance and migrant remittances – two relatively new and growing sources of local investment financing – have proven both their importance and potential. It also provides a brief look at microfinance, whose institutions offer management and finance models that might serve as templates for local governments. It discusses an intermediate level of financing known as "meso-finance;" its still-tenuous growth could prove valuable, notably for financing small-scale, private property development and rental housing.

Part V addresses strategic and operational ideas for infrastructure and local investment financing, anticipating Africa's exceptional urban growth in the coming decades. We focus on sub-Saharan Africa, beginning with three sections that focus on fundamental issues: "Changing scales and paradigms," "The inevitable strengthening of local governments' role," and "Encouraging endogenous financing." Crystallizing the analyses of Parts I through IV, this section situates needs estimates in relation to local governments' borrowing capacities, drawing on lessons from the appended case studies, and defining strategy elements.

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It then examines ways of bolstering existing financing tools and possible steps toward modernizing financing systems. By describing situations where financing needs could be met by using capital markets and mobilizing credit institutions; this part touches on problems in implementing new financing tools and outline various options, particularly in relation to the size of local investment markets. It proposes using the latest generation of local investment funds, drawing on a set of examples from other continents.

Part V also describes the characteristics of a legal and regulatory framework for sub-sovereign debt. It details the conditions where land value capture and land development financing techniques could prove effective; recourse to such techniques, it argues, appears all but unavoidable for financing Africa's urban development. It also proposes optimizing measures to leverage the housing sector, as a means to create economic activity and financial resources for local governments. It concludes with a proposition for a special initiative to help cities in fragile states.

The appendix features **eight concise case studies** from Cape Verde, Egypt, Ghana, Morocco, Nigeria, Senegal, South Africa, and Tunisia. Rather than exhaustive, single-country studies of decentralization and local finances, these case studies are targeted to specific countries and their tools for financing local investment. The selected cases are arguably the most significant ones in Africa: they demonstrate how diverse countries are with respect to investment market size, and they cover all of the existing financing tools. The appendix concludes with a concise analysis, summarizing the case studies and their principal lessons, as applied to the analyses and propositions in other parts of this volume.

Africa's cities have the potential to serve as engines of much-needed economic growth, job creation and social integration, as long as public policy supports and organizes their growth adequately. The 2008 financial crisis showed how much urban housing, land development and land management are interlinked with finance and the global economy. The subject of this volume, financing local investment, provides a common thread that allows us to approach and address many complex and vital issues for African societies.

The French version of Financing Africa's Cities will be published in January 2012 by Pearson Publishing. The English version of the book will be made available by the World Bank early in 2012.