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Case Study: City Creditworthiness in East Africa

Tags: Investment, Infrastructure, Cities, Case Study, Evidence



This case study analyses an innovative approach in providing capacity building to municipal officials, improving financial performance practices in order to access long term capital of sub-national entities (SNEs). The **City Creditworthiness Initiative (CCI)**, was created “to coordinate and integrate existing efforts, instruments, knowledge and resources by identifying the most effective solutions and implementation arrangements for sub-national entities”.¹ It is implemented by the World Bank Group in partnership with the Rockefeller Foundation and the Korean Green Growth Trust Fund. In this case study ICED explores the detailed approach to designing CCI, outcomes and key success factors in delivery. For more information on best practice programme design consult the ICED website, or **contact the ICED Facility at iced.programming@uk.pwc.com**.



Overview

PPIAF/SNTA's support of City Creditworthiness as a thematic programme

The Public-Private Infrastructure Advisory Facility (PPIAF) is a multi-donor technical assistance facility established in 1999 to help developing countries improve the quality of their infrastructure by increasing the participation of the private sector. PPIAF's Sub-National Technical Assistance Program (SNTA Program) was set up in 2007 to provide technical assistance to support sub-national entities (SNEs) improve their ability to access financing for infrastructure investments, without relying on sovereign guarantees. The CCI is at the core of the PPIAF/SNTA mandate.

City Creditworthiness Initiative

The CCI was set up by PPIAF/SNTA in 2014 by the SNTA in partnership with the Rockefeller Foundation and the Korean Green Growth Trust Fund. During 2014 and 2016, 11 Academies have been implemented, two of which were pilot counties, with the support from implementation partners (see below for details).² Kenya and South Korea's Academies were completed in FY14, as pilot countries. Tanzania, Colombia, Uganda and Rwanda were completed in FY15. Academies took place in Turkey, Ethiopia and India in FY16. Separately financed Academies were held in Amman and Jordan, as part of the Creditworthiness Network launched by C40 Cities Climate Leadership Group and funded by Children's Investment Fund Foundation. Following the success of PPIAF/World Bank's **Revenue Masterclass series**, an initiative to help municipal financial

¹ World Bank, *City Creditworthiness Initiative, A partnership to deliver municipal finance*, N.D., Available at: <http://www.worldbank.org/en/topic/urbandevelopment/brief/city-creditworthiness-initiative>

² Universalialia, *Independent Evaluation of the Public-Private Infrastructure Advisory Facility's Sub-national Technical Assistance Program*, Final Report, June 2016, p11.

managers plan for a low-carbon future and to get the needed finance flowing, CCI was born to continue the momentum in building more sustainable and financially viable municipalities in Africa.

As the table below details, the CCI is composed of two components: the Academies and Creditworthiness Implementation Programs.

Table 5: CCI Composition

Activity	Who designs?	Who delivers/manages?	Who finances?
1) CC Academies (events/training materials)	WB	WB Experts	PPIAF, Rockefeller Foundation, Korean Green Growth Trust Fund, World Bank
City Creditworthiness Implementation Programme			
2a) Design of City Creditworthiness Programs	WB Experts working with Country Municipalities	Country Municipalities, Central Government, and implementation partners, with assistance/ coordination from WB	PPIAF, Rockefeller Foundation, Korean Green Growth Trust Fund World Bank
2b) Follow up TA for the implementation of Creditworthiness Programs	WB Experts working with Country Municipalities	WB leads and supervises implementation with the support from international/ regional /local consultants	PPIAF, Rockefeller Foundation, Korean Green Growth Trust Fund, World Bank

Source: World Bank

The CCI Initiative shows evidence of **qualitative and quantitative results**, both of which are imperative to the successes of the Initiative. Examples of qualitative results include explanations from participants in the Academies of lessons learned from capacity-building mechanisms and implementation plans, whilst quantitative results include measurable increases in cities' own source revenues. These are described in detail below.

TA service providers: World Bank selects consultants, the majority of whom are international and regional consultants. Local consultants are always involved in the discussion and provide ongoing support to technical assistance.

Funding for academies : CCI core funders are the PPIAF/SNTA, the Rockefeller Foundation (that has provided \$1 million for post-Academy technical assistance³.) and the Korean Green Growth Trust Fund. Partial co-funding is contributed by the central government and it may come from other partners, determined on a case-by-case basis.

Role of implementing partners : The implementing partners for the delivery of Academies include C40-Network, UN-Habitat, Findeter, Municipal Institute of Learning (MILE), Korean Development Institute.⁴ They are coordinated by the World Bank, which remains the primary lead for all Academies. Post-Academy technical assistance programs are provided primarily by the World Bank with co-financing/capacity/knowledge leveraged from available partners (identified in each country on a case-by-case basis).

Delivery of the CCI: As noted above and illustrated in Figure 6 below, the CCI is composed of two components: the Academies and the Implementation Programs. For the Academies, leaders from the Municipalities in the country, for example Tanzania or Uganda, attend a hands-on learning programme to explain the fundamentals of creditworthiness and municipal finance. The Academy's capacity-building element focuses on bringing together different municipalities' Chief Finance Officer, Treasurer, Chief Engineers and Urban Planners to participate, engage, and develop an action-plan with solutions to improve their cities' creditworthiness throughout the Academy. Throughout the week-long workshop, the participants

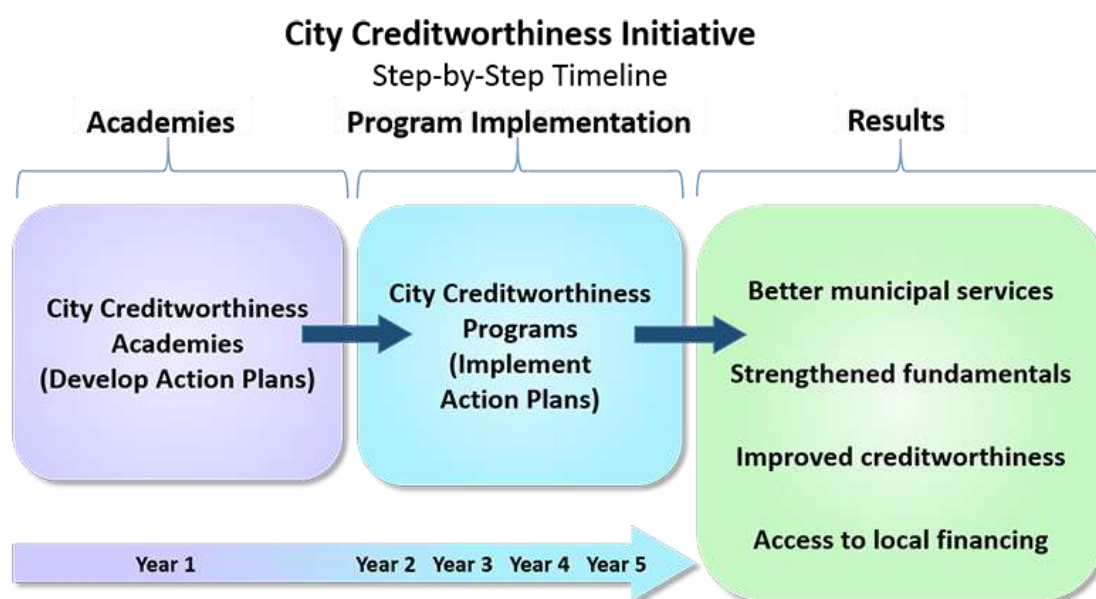
³ Interview with Juliana Bedoya and Kirti Devi, PPIAF Advisors, October 17, 2016.

⁴ World Bank, City Creditworthiness Initiative, N.D.

cover financial creditworthiness seminars. At the end of each day, they are walked through a self-assessment of their city’s financial performance: to identify areas that require action⁵. Essentially, these self-assessments are a cost effective way to assess the city’s baseline on a number of specific criteria, including current investment priorities and key challenges facing the economy.

The second component of CCI are the City Creditworthiness Programs during which participants produce action plans for their cities, following self-assessments, which help participants gain experience using the tools and knowledge to shape multi-year programmes using a set of interventions that reflect the holistic scope and regulatory environment of creditworthiness. This is designed to “help participants prepare for, structure, and close market-based financing transactions for climate-smart infrastructure projects, using local currency markets whenever possible.”⁶

Figure 6: City Creditworthiness Initiative step-by-step timeline



Source: World Bank, City Creditworthiness Initiative

Theory of Change

There is no one document or text that fully articulates a coherent Theory of Change pathway or methodology for CCI. The paragraph below outlines some of CCI’s core principles that shape its Theory of Change causal pathway from output to outcome to impact for its Academies.

CCI’s initiative is based on the understanding that **achieving creditworthiness is a long-term target** for cities’ economic growth. However, cities can achieve short term benefits by improving their financial position (and financial management practices), and hence, their capacity to fund infrastructure investment and service delivery, prior to reaching full creditworthiness. Understanding the specific challenges affecting sub-national credit-worthiness, and creating adoption plans to tackle these challenges, for example by focussing on private sources of long-term financing through local capital markets and commercial partnerships, are essential steps towards cities achieving creditworthiness. For example, cities can make progress in developing public-private partnerships, accessing small loans and providing service delivery goals in the short-term. The World Bank has expressed a desire to engage with a larger global pool of cities, to further grow the initiatives reach.⁷ This initiative focuses on engaging with a larger pool of cities in lower-income countries, rather than the middle-

⁵ Self-assessments are conducted online and are mostly open-questions; example questions to participants include ‘do you have a policy for debt management?’

⁶ World Bank, City Creditworthiness Initiative, N.D.

⁷ Interview with Joshua Gallo, Senior Municipal Finance Specialist World Bank, Lead of City Creditworthiness Initiative, 14 October, 2016.

income countries traditionally targeted by donors, in order to put cities in on a path towards financial viability, and ultimately creditworthiness.

Expected results

When measuring results of the CCI Academies evaluate results by identifying outputs, expected outcomes and expected impacts. The CCI has developed a high-level results framework of expected outputs and outcomes, although analysis to identify the real long-term impact for the Initiative's work will be conducted in FY 17. PPIAF/SNTA has identified some measurable impacts for Uganda, listed below.

Whilst CCI's results framework and sign off sheets discuss quantitative targets and expected outputs and outcomes for Academies, no CCI related document describes the Academies risks and assumptions, or other metrics that measure the level of risk involved in delivering the Initiative. Further, research and an interview with Joshua Gallo from the World Bank, showed that there is little being done in the CCI initiative to track inclusive development such as inclusive gender initiatives. This area is thus a huge opportunity for further research and action.

Expected outputs

A PPIAF sign-off sheet shows that for the Academies Colombia, Uganda and Rwanda, (under Program 1 FY 2015), the expected outputs were:

- Analyses/assessments prepared: *60 creditworthiness assessments* produced for municipalities (and other subnational entities) participating in the Initiative
- Plans/strategies prepared: *60 action plans* produced for municipalities (and other subnational entities) participating in the Initiative, *three Country-wide post-Academy Technical Assistance Programmes*
- Workshops/seminars: *three Creditworthiness Academies* (three Academies reports)
- Website for the Initiative
- Knowledge Facilitated and Disseminated: InfoBank, Online Community of Practice (for municipal finance practitioners such as city CFOs, engineers, planners, lawyers, experts, among others), Municipal Finance Handbook⁸

Expected outcomes

PPIAF interventions are designed with its' results frameworks, focused up to the interim expected outcome level. If the team had to summarize the expected outcome (one level above expected interim outcomes), they would summarize it as "*Participating municipalities have increased capacity to identify and plan to address key creditworthiness challenges*", addresses in the creation of action plans. This in turn would lead to long-term results illustrated above.

Evidence of economic development contribution

Whilst concrete growth linkages cannot be identified at this stage (as mentioned above, impact results will be provided in FY17), evidence from interim outcomes indicate that increasing creditworthiness is expected to lead to improved access to long-term capital, provided that municipalities have the revenue base to support long-term debt service payments or PPP obligations which allow them to sustainably finance their infrastructure gap. The link between infrastructure and growth is very well documented in literature, although less has been documented on the differentiating between cities, as a 'one-size-fits-all' policy will not be effective. In light of this, no specific long-term growth linkages can be attributed to CCI, at this stage of the Initiative's work. We see incremental contributions to economic development following CCI's work, as evidence in the rating report by Global Credit Ratings noting Kampala's improved operational capacity to deliver large infrastructure projects in FY2015.

Aside from creditworthiness, the Initiative is played a role in raising awareness of a city's ability to improve financial performance by advancing other short-term goals – such as creating service delivery goals, small loans, creating public-private partnerships, increasing revenues, to provide a few examples. These relatively

⁸ PPIAF, *Sign-Off Sheet*, 2015.

'smaller' wins allow cities in lower-income countries to work towards delivering reasonable economic development goals.

Interventions in Tanzania and Uganda

Expected outcomes

This case study will focus on Tanzania and Uganda as two key examples of the initiative. **The Tanzania Academy** was held in Arusha, on 4th - 8th of August 2014, attended by over 100 treasurers, revenue accountants, economists of 34 urban local government authorities of Tanzania Mainland and Zanzibar. Representatives from the Prime Minister's Office – Regional Administration and Local Government and Ministry of Finance of Zanzibar also attended the Academy. Topics included:

- Revenue management and enhancement;
- Expenditure control and asset maintenance;
- Capital investment planning;
- Debt management;
- The use of special purpose vehicles to "ring fence" specific revenues;
- Scoping out options for financing;
- Developing the enabling environment for private sector involvement;
- The training also introduced lessons from global best practices, relevant for the Tanzanian context.

The Uganda Academy was run for five days and was attended by 30 local government representatives including town clerks, chief financial officers, representatives from 22 secondary cities and the five best performing Town Councils. Topics included how to prepare capital investment plans, debt management and best practices on generating their own source revenue. This Academy was born out of the long-term collaboration between the World Bank and PPIAF.

Evidence/assessment of economic development and growth contribution: results and successes – Tanzania and Uganda

Annex I, Table 6, summarises the outputs delivered by the CCI in Tanzania and Uganda. The five day capacity building workshop deals with a full range of factors affecting cities financial management performance, including issues determined by the enabling environment and options for financing. Using a preliminary self-assessment tool during the Academy, participants developed a customized draft action plan of specific institutional reforms and capacity building actions that will improve their creditworthiness and facilitate their ability to plan, finance and deliver infrastructure services. During the Academies, the agenda broadly focusses: 1) on identifying specific challenged affecting sub-national credit-worthiness, across municipalities and formulating initiatives explicitly linked to the challenges identified and; 2) improved awareness regarding measures to strengthen municipal credit-worthiness to put municipalities on a right path to becoming creditworthy.

Differences between Tanzania and Uganda

There are a number of factors that help explain differences between the results seen so far in Tanzania and Uganda⁹.

- City-specific factors; **the political economy of the two countries drastically affected the design and implementation of each Academy.** The fact that Kampala is riddled with ongoing political issues poses different issues for the implementation of the Academy than in Tanzania, for example. In spite of political issues, the Academy's success in Kampala is evident in the fact that the Academy has plans to be scaled up further across Uganda. Tanzania, on the other hand, had a large number of municipalities attending the Academy in Arusha, where the goal was to build on Arusha's initial successes and use the lessons learnt when rolling out work across further work in other cities in Tanzania.

⁹ Interview with Joshua Gallo, 2016

- Another key factor is the interaction and the relationships the countries already had with the World Bank. For example, PPIAF-SNTA had experience with 28 municipalities across Uganda from 2012 before the Academy took place in Uganda, which helped shape Kampala's needs and opportunities towards creditworthiness.¹⁰ This **prior relationship affected how results were achieved by the Academy implementation**. For Tanzania, some of the success and results lay in the fact that many municipalities were able to attend the Arusha Academy, and that 59% of participant respondents said that they would apply 80-100% of the knowledge gained in their work and implementation after the Academy, and 40% said they would apply 50-79%, respectively.¹¹

Climate change

Joshua Gallo describes the fundamental objective of incorporating climate change issues in the Creditworthiness Academies: "Key Innovation that we focus and rely on is how to help cities develop capital investment plans that are climate smart".¹² Academy participants are asked to take **existing project plans**, rather than developing new ones, and attempt to **make them more sustainable, finding alternative designs, site selections, or energy efficient mechanisms in order to tackle climate development goals**. However, the intervention has demonstrated that Tanzania, has not been as receptive as Uganda, in particular Kampala, to commit to the same level to the Climate-Smart Capital Investment Plans. Therefore the CCI has had to be adaptive with different cities, using three to five projects as examples for each Tanzanian cities, rather than 84 projects Kampala was able to analyse and implement. Kampala is now able to roll out and scale up Academies and Climate-Smart Capital Investment Plans serving six secondary city programmes in Uganda.¹³

Key success challenges in delivery

The review suggests a number of factors which have contributed to CCI's achievements.

- The CCI combines **a learning component with the development of action plans for improving municipal financial management**, which appears to have been important in attracting municipalities to participate in the program, and to help them to start thinking about how to deliver short-term benefits to the municipal governments. The implementation of Academies in Tanzania and Uganda, is an example of successful capacity building in cities.
- The **daily self-assessment, an online platform that questions the participants' knowledge and understanding of key topics**, and the long-term national and central implementation plans to creditworthiness, executed by experts on the final day of the week-long workshop, are successful examples of innovative thinking in development countries.
- **Bringing together chief financial officers (CFOs) and public urban planners** to develop public-private partnerships strategies, develop infrastructure investment agendas and economic growth plans, where traditionally, authorities at each level would work in siloes, is a new and innovative way of working across institutions and across borders. Introducing this collaborative way of working has enabled regional and national strategies and relationships.
- **A Geographic Information System (GIS), in Tanzania for example, has been introduced which has revolutionised the way municipalities can collect revenues, fees and tax**. This evidences the potential to successfully scale up and compliment other capacity building programs alongside the CCI Initiative. One example includes CCI supporting and promoting DFID's plans to activate a trust fund in

¹⁰ PPIAF, *PPIAF Helps Kampala Capital City Authority Improve its Creditworthiness*, 2015, Available at: <file:///C:/Users/923553/Downloads/Uganda-Kampala-SNTA-Credit-Rating.pdf>,

¹¹ PPIAF, *ME&L Report: Municipal Finance and Creditworthiness Academy: Strengthening Financial Management of Tanzania Local Governments*, Arusha, Tanzania, 2014.

¹² Interview with Joshua Gallo, 2016

¹³ *Ibid*

FY16, in which municipal public-private partnerships offer resources to help devise pipelines for various capacity building assessments.

- Whilst creditworthiness is a long-term aspirational goal for developing cities in lower-income countries, such cities can work towards **delivering smaller and more reasonable goals that deliver economic growth in the short term**. Focussing on the latter may save municipalities' time and effort on pursuing creditworthiness ambitions that are beyond the city's fiscal capabilities. Balancing the opportunity costs between driving creditworthiness initiative in cities with weak fiscal power and capabilities, against the potential risk of municipalities wasting efforts when failing to increase their debt service capacity from financial markets, needs to be considered when CCI select which city to work in.

Conclusions

1. Academies have successfully implemented a process of **collaborative discussions** between local municipal governments, CFOs, and urban planners, self-assessment of local municipalities' performance, to use a hands-on approach to make long-term plans for implementation of key strategic goals to achieve creditworthiness, see Kampala as an example of what can be achieved.
2. **Innovative features** of this intervention have been key in enabling the successful implementation of Academies in Tanzania, Uganda, and elsewhere, and potential cities can learn from these successful examples of capacity building, economic growth through long-term planning and implementation plans from self-assessments in cities.
3. Whilst cities in developing countries undeniably face a challenge in reaching creditworthiness, there are **key steps that cities could take to make progress towards financial sustainability**. These could include implementing public private partnerships, revenue generation, concessional based grants into cities, all of which could contribute to freeing up resources for infrastructure service delivery and thus contributing to economic growth.
4. **The political economy of countries** drastically affects the design and implementation of each Academy, and subsequently affects the outputs created for each city (e.g. action plans). We see this especially in the different approaches for Arusha and Kampala, and the subsequent disparity in successes for the two cities.
5. **Prior relationship between donor and municipalities/authorities** in a particular country affect which countries are selected for the Initiative and how results are achieved by the Academy implementation. We see this with Uganda, PPIAF-SNTA had experience with 28 municipalities across Uganda from 2012, before the Academy took place in Uganda, which helped shape Kampala's needs and opportunities towards creditworthiness.
6. **Lack of reliable data and intransigence** from authorities in refusing to collect data can be a barrier to devising holistic and truly reflective creditworthiness actions plans. Creating incentives that encourage authorities to share available data and capture new data where possible will be essential in devising up-to-date and comprehensive action plans and strategies on the city's creditworthiness.
7. **Continuing to track the successes and results of cities** taking part in the Academies will develop an understanding of how cities can improve their financial performance and generate economic growth. These results can also be tracked visa-vi international development goals, including climate smart initiatives. Addressing lessons learned and successes/failures from previous Academies will play an imperative part in creating new planned paths to creditworthiness with new cities planning to take part in the creditworthiness programme.