

Bond Case Briefs

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U.S. Backs Dakar Bonds in Model for Fast-Growing Cities.

The U.S. Agency for International Development said yesterday that it will guarantee Senegal's first municipal bond sale of \$41.8 million, part of a broader American effort to help stabilize an increasingly urban world.

The U.S. aid agency is guaranteeing 50 percent of the general-obligation bond issue for seven years, and will spend \$8,360 to help Dakar, the Senegalese capital, list it on the regional stock exchange sometime in the next three or four months. It would be the first in sub-Saharan Africa, and the first non-sovereign-backed.

Instead, the bonds, announced at the aid agency's Frontiers in Development conference in Washington, will be backed by Dakar city taxes, with the expectation that all the proceeds will be used to pay the bonds. If there's a shortfall, the city has created a reserve account that can be tapped.

Dakar, with 3 million residents according to the CIA Factbook, is Senegal's largest city, economic hub and the business gateway to West Africa. The municipal bonds will be used to build a marketplace for about 3,500 street vendors, allow them to establish and grow their businesses and give the city a chance to collect rent and taxes.

With 1.5 million people a week streaming into cities, and almost 60 percent of the world's people expected to live in them by 2050, U.S. intelligence officials say urban growth could either boost Asian and African economic and political stability or generate contagious instability.

'Front Lines'

As municipalities struggle to meet the growing demand for services and infrastructure, central-government funding has often failed to keep pace. Finding ways to tap private investment could counter the failures that mire megacities with traffic congestion, failing infrastructure, entrenched criminal networks, deteriorating health and sanitation conditions and — the U.S. aid agency's concern — extreme poverty.

"Municipalities are on the front lines of battling extreme poverty, especially in a world where populations are exploding in cities and will in the future, and more central governments are reducing the amount of tax transfers that they send," said Michael Metzler, director of the agency's Development Credit Authority.

The shortage in central government funding and limited city tax bases "opens a space where private financing makes a lot of sense" for cities, Metzler said, "but a lot of them aren't able to access" it.

The agency's Development Credit Authority specializes in leveraging private capital to further economic development, sidestepping tightening federal budgets and departing from the traditional role of simply doling out aid. It encourages local banks in developing countries to make loans to underserved businesses that deal with agency priorities such as agriculture and energy by pledging

to cover 50 percent of any losses.

Private Capital

Raj Shah, the agency's administrator, said the partnership with Dakar underscores how it's "working with engines of American innovation — like the Gates Foundation — to end extreme poverty. By unlocking the power of private capital, we can help local leaders like Mayor Khalifa Sall seize opportunities for broad-based economic growth."

The bond issue "will help diversify the city's capital resources at a lower rate for a longer maturity," Sall, the mayor, said in an e-mail. "Dakar is setting the example of how to find innovative and sustainable ways to finance major infrastructure projects in order to improve life for the urban population." Its success, Sall said, would create opportunities for his city, as well.

The preparations for issuing the bonds already have had an impact, Metzler said.

Gates Foundation

The Bill & Melinda Gates Foundation worked with Dakar to found a municipal financing unit aimed at selling the bonds. The unit has worked on strategic budgeting, financial forecasting and strengthening capacity for future bond sales.

The standards needed to meet investors' demand for transparency and effective management also will help improve governance, Metzler said.

"Once a city wants to enter these markets, it has to become transparent; it has to open itself up to critique; and then it has to improve any systems seen as lacking by potential investors," he said. "The city is much, much stronger today than they were when this transaction process started."

Sall heads a pan-African group of municipal leaders, and a larger goal of the issuance is to encourage other cities to explore loan guarantees as a way to access private capital, Metzler said.

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By Nicole Gaouette Sep 18, 2014 5:00 PM PT

To contact the reporter on this story: Nicole Gaouette in Washington at ngaouette@bloomberg.net

To contact the editors responsible for this story: John Walcott at jwalcott9@bloomberg.net Larry Liebert