City and subnational and local governments in Africa (also named cities and territories) intend to significantly contribute to the African Union’s Agenda 2063. To this end, African cities will have to invest about 25 billion US dollars a year to host, in good conditions, 450 millions additional inhabitants by 2030, while eliminating the accumulated deficit in terms of equipment and infrastructure. Such financial volumes are vastly higher than current instant savings of cities and territories, even if such savings are supplemented by the funds allocated by the national States to local investment. On the other hand, the debt service capacities are constantly growing and make it possible to consider raising significant resources on the financial markets.

It is for this reason that African leaders of cities and territories take the initiative of creating the Africa Territorial Agency, a financial institution dedicated to the financing of infrastructure, equipment and urban services. Drawing lessons from the international experience, the Africa Territorial Agency will be a cooperative institution of which cities and territories will be the shareholders alongside development banks (African Development Bank, regional development banks in Africa, etc.), institutions specialized in the financing of cities and territories, international financial institutions, and any fund interested in investing. The political and financial involvement of a hundred political leaders and of management of these institutions is necessary to ensure the credibility of the project.

Building on 18 months of reflexions and discussions with potential partners, the first meeting of the Founder’s Club of the Africa Territorial Agency was held on November 11, 2019, on the margins of the 6th World Congress of UCLG in Durban (South Africa). According to the road map, the Club will engage the creation process of the Africa Territorial Agency, with the support of legal and financial advisers.

FOR FURTHER INFORMATION

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Africa Territorial Agency
a financing institution for cities and territories

MEETING THE FINANCING NEEDS OF LOCAL AUTHORITIES

- 17 million new inhabitants each year in African cities
- The local financing needs of African cities are enormous: $23 billion a year
- The investment capacities of cities represent 4% of GDP
- The municipal bonds market represents over 4 billion dollars worldwide and African taps less than 1% of this market
- Africa Territorial Agency is a solution aimed at increasing the financial resources for the development of cities and territories

AN ENABLING INSTITUTIONAL ENVIRONMENT

- In 75% of the countries, the legislative framework supports more autonomous management of cities and local authorities
- Cities do enjoy support to improve their financial management
- Africa Territorial Agency assists cities and territories to meet their financing needs

A FINANCIAL INSTITUTION CREATED BY AND FOR CITIES AND TERRITORIES

- An initiative of the members of UCLG Africa
- An institution managed by the leaders of the member local governments
- A governance that guarantees the independence of management
- An institution dedicated to the financing of cities and local governments
- Africa Territorial Agency is the credible response of city and subnational and local governments to their financing needs

Africa Territorial Agency
an instrument aimed at pooling means

BENEFITS

- Issuance of larger bond loans, which are of interest for international public and private investors
- Reduction of interest rates for cities and territories to levels that are close to, or equal to, those obtained by the Central Government
- Reduction of transaction costs for municipalities
- Offering a guarantee system that reassures investors
- Allowing small and medium-sized cities to access funding on the same terms as very large cities

OPPORTUNITIES

- Rewarding good management efforts through access to loans in good conditions
- Helping each other to spread the culture of financial accountability
- Facilitating the implementation of municipal programs and loans of the international development banks

CHALLENGES

- Attracting private investors to finance local public investments
- Boosting local investment to improve public services.

For many reasons, African city and subnational and local governments face many difficulties in raising bonds on national and international markets. Africa Territorial Agency is an instrument aimed at pooling the means available. It allows cities and territories to go together to find the financing they badly need.

Ad hoc financing vehicles around the world

Municipal financing vehicles are aimed at local governments that wish to channel their efforts to access the financial market. The most advanced level of cooperation is the creation of an ad hoc financing vehicle to act as a bridge between cities, territories and the capital market.

- 36 vehicles are active in Europe, North America and Asia
- Kommunekredit: the oldest municipal bank, created in Denmark in 1898
- Girofu: a commune of 98 inhabitants, the smallest shareholder of Agence France Locale
- The diversity of institutional arrangements reflects the diversity of situations in local governments around the world

The States of Hidalgo (Mexico) and Tamil Nadu (India) have a municipal fund

Lends to city and subnational and local governments in local currencies
- Lends at very competitive rates
- Contributes to the empowerment of cities and territories in the preparation and management of their financing vehicle.

GOOD SERVICE

BUILDING A FINANCIAL INSTITUTION OF INTERNATIONAL STANDING

Africa Territorial Agency is a credit institution that must comply with internationally recognized standards in order to issue bonds under excellent financing conditions (low rates, long tenor). It is a recognized financial institution. Its bylaws and organization must achieve the following goals:

- Getting an excellent international credit rating
- Setting up a banking and financial risk management department
- Ensuring the full control of the strategy by the members
- Establishing a mechanism to assess the risk appetite

Africa Territorial Agency offers the following services to investors:

- Ensuring the independence of the administrators of the financial activities
- Getting support from recognized international financial institutions
- Obtaining the repayment of all loans granted
- Making available administrative guarantees

Number of funds that are wholly-owned by local governments

<table>
<thead>
<tr>
<th>Geographical Area</th>
<th>Number of Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>8</td>
</tr>
<tr>
<td>Europe</td>
<td>8</td>
</tr>
<tr>
<td>Asia</td>
<td>4</td>
</tr>
<tr>
<td>Africa</td>
<td>4</td>
</tr>
</tbody>
</table>

USA 15

USA

Africa Territorial Agency
an institution at the service of the city and subnational and local governments

- Provides long-term financing (7 to 15 years)
- Provides service to other players the role of its resources, with a small margin
- Finances the community’s investment program (line of credit)

Offering solid guarantees to international investors
- Ensuring the control of the strategy by the members
- Guaranteeing the independence of the administrators of the financial activities
- Establishing a mechanism to assess the risk appetite
- Organizing a strict internal control of the institution

The diversity of institutional arrangements reflects the diversity of situations in local governments around the world

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