

# Studies on financial resource sustainability and diversification for Local Government Financing Institutions in Africa

Cross-Cutting summary of studies on  
**FEICOM** (Cameroon), **FDL** (Madagascar),  
**ANICT** (Mali) and **ANFICT** (Niger)



With financial support from:

Study by Institutions & Développement (Emmanuel Pousse and Daniel Latouche)  
Final version revised in February 2018 by UNCDF, the FMDV and RIAFCO  
Final corrections in March 2018 by I&D



Institutions et Développement (I&D)

I&D, founded in 1996, is a Europe-based institutional analysis and strengthening consulting firm with a particular interest in drivers of change and capacity-building. I&D's work focuses on the changing distribution of roles among development partners (government, local authorities, civil society and private operators) and their impact on development. It has a wealth of experience in decentralization and local development, with a proven track record in: (i) designing decentralization policy and strategy; (ii) delivering technical assistance to local authorities; (iii) deploying local authority financing mechanisms; (iv) supporting parallel government devolution processes and transforming sector-specific practices; and (v) building local authority administration, management and service delivery capacities. For more information, see: [www.ietd.net](http://www.ietd.net)

## RIAFCO

The Réseau des Institutions Africaines de Financement des Collectivités Territoriales [Network of African Local Government Financing Institutions] is a platform of local government financing institutions (LGFI) across Africa. The network seeks to encourage LGFIs to cooperate closely on all aspects of decentralization finance and to build active solidarity between its members through information and experience-sharing. RIAFCO held its inaugural General Assembly on 6-7 November 2014 in Yaoundé, Cameroon. In 2017, it had seven active members (LFGAs in Burundi, Cameroon, Côte d'Ivoire, Gabon, Madagascar, Mali and Niger). More information is available at <http://www.riafco.org/>

## Technical partners

### FMDV

The Global Fund for Cities Development - FMDV is the international alliance of local and regional governments mandated for developing and promoting financial solutions for urban development and local economic development. FMDV (i) design operational strategies and organize conditions to finance urban territories from different scales of actions (international, regional, national and local), (ii) organize the convergence of stakeholders to create a shared culture of financing subnational economic development through the animation of a multiactors dialogue, and (iii) contribute to the political and institutional debate on localizing finance and economic development in order to promote solutions for implementing international commitments on a local scale. Over the last three years, FMDV has mobilized and collaborated with more than 1,500 cities and regions, from over 110 countries, 250 private companies, and most local development technical and financial partners. For more information: <http://fmdv.net/Home>

### UNCDF

UNCDF makes public and private finance work for the poor in the world's 47 least developed countries (LDCs). With its capital mandate and instruments, UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. This last mile is where available resources for development are scarcest; where market failures are most pronounced; and where benefits from national growth tend to leave people excluded. UNCDF's financing models work through two channels: savings-led financial inclusion that expands the opportunities for individuals, households, and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and by showing how localized investments — through fiscal decentralization, innovative municipal finance, and structured project finance — can drive public and private funding that underpins local economic expansion and sustainable development. UNCDF financing models are applied in thematic areas where addressing barriers to finance at the local level can have a transformational effect for poor and excluded people and communities. By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to SDG 1 on eradicating poverty with a focus on reaching the last mile and addressing exclusion and inequalities of access. At the same time, UNCDF deploys its capital finance mandate in line with SDG 17 on the means of implementation, to unlock public and private finance for the poor at the local level. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile, UNCDF contributes to a number of different SDGs and currently to 28 of 169 targets. For more information, visit <http://www.uncdf.org/>

## Financial partner

### PPIAF

Funding for this publication was provided by the Public-Private Infrastructure Advisory Facility (PPIAF). Established in 1999, PPIAF is a multi-donor technical assistance facility housed inside the World Bank Group. PPIAF is a global facility dedicated to strengthening the policy, regulatory, and institutional underpinnings of private-sector investment in infrastructure in emerging markets and developing countries. PPIAF catalyzes private participation through public-private partnerships (PPPs); market-based financing of sub-national entities; and by supporting the generation, capture, and dissemination of best practices relating to private-sector involvement in infrastructure. The findings, interpretations, and conclusions expressed in this report are entirely those of the authors and should not be attributed in any manner to the Public-Private Infrastructure Advisory Facility (PPIAF) or to the World Bank Group, to its affiliated organizations, or to members of its Board of Executive Directors or the countries they represent. For more information, visit [www.ppiaf.org](http://www.ppiaf.org)

# Table of Contents

	List of acronyms and abbreviations	05			
	Executive summary	06			
<b>01</b>	<b>Background and Introduction</b>	<b>07</b>	<b>04</b>	<b>Diversifying LGFIs' resources: Lessons learned from the case studies</b>	<b>36</b>
<b>02</b>	<b>Financial decentralization and LGFIs</b>	<b>10</b>	4.1	Is it appropriate for LGFIs to access climate funds?	37
2.1	General overview of financial systems in the four countries	11	4.2	What value do LGFIs bring to the sector-specific transfers system?	38
2.2	Overview of financial and fiscal decentralization in the four countries	12	4.3	Can equalization help diversify LGFIs' resources?	38
2.3	The role of LGFIs in financial decentralization processes in the four countries	15	4.4	How mature is the Local Authorities lending ecosystem?	39
2.4	Key challenges facing the LGFIs	16	4.5	What alternative sources of finance are available to LGFIs?	40
<b>03</b>	<b>Sustaining LGFIs' resources and action: Four case studies</b>	<b>24</b>	4.6	What lessons can be learned about the role of TFPs?	41
3.1	What does "sustaining LGFIs' resources and action" mean?	25	<b>05</b>	<b>Conclusion: What can RIAFCO do to help strengthen its member LGFIs?</b>	<b>43</b>
3.2	Cameroon: How can FEICOM satisfy environmental fund eligibility criteria?	26	5.1	Key priorities for RIAFCO-member LGFIs	44
3.3	Madagascar: How could an equalization fund help sustain FDL's resources?	28	5.2	How RIAFCO could support its members' efforts	48
3.4	Mali: What does ANICT need to do now, and in the long run, to facilitate access to loans?	30		Appendix 1 : Content of FEICOM-Cameroon study	52
3.5	Niger: How can ANFICT sustain its action?	33		Appendix 2 : Content of FDL-Madagascar study	54
				Appendix 3 : Content of ANICT- mali study	56
				Appendix 4 : Content of ANFICT- Niger study	58
				Appendix 5: Key components of Africa's municipal lending ecosystem	60
				Appendix 6: List of indicators from the broad-based index of financial development	62

# List of Acronyms and Abbreviations

ABS	Appuis Budgétaires Sectoriels (Sectoral Budget Support) (Mali)	FMDV	Fonds Mondial pour le Développement des Villes (Global Fund for Cities Development)
ADM	Agence de Développement Municipal (Municipal Development Agency) (Senegal)	FNACT	Fonds National d'Appui aux Collectivités Territoriales (National Support Fund for Local Authorities) (Mali)
AFD	Agence Française de Développement (French Development Agency)	FNP	Fonds National de Péréquation (National Equalization Fund) (Madagascar)
AfDB	African Development Bank	FP	Fonds de Péréquation (Equalization Fund) (Niger)
ANFICT	Agence Nationale de Financement des Investissements des Collectivités Territoriales (National Agency for Local Authority Funding) (Niger)	GCF	Green Climate Fund
ANICT	Agence Nationale d'Investissement des Collectivités Territoriales (Local Authorities National Investment Agency) (Mali)	GDP	Gross Domestic Product
BRVM	Bourse Régionale des Valeurs Mobilières (Regional Stock Exchange) (Abidjan, Côte d'Ivoire)	GEF	Global Environment Facility
CAC	Centimes Additionnels Communaux (Additional Municipal Taxes) (Cameroon)	HR	Human Resources
CEFAM	Centre de Formation pour l'Administration Municipale (Municipal Administration Training Centre) (Cameroon)	HRM	Human Resource Management
CFA franc	African Financial Community franc	I&D	Institutions et Développement
CFCT	Centre de Formation des Collectivités Territoriales (Local Authority Training Centre) (Mali)	IDA	International Development Association (part of the World Bank)
CLOCSAD	Comité Local de Coordination et de Suivi des Actions de Développement (Local Development Action Coordination and Monitoring Committee)	IFRS	International Financial Reporting Standards
CPER	Contrat de Plan État-Région (State-Region Planning Contract)	IMF	International Monetary Fund
CREPMF	Conseil Régional de l'Épargne Publique et des Marchés Financiers (Regional Public Savings and Capital Markets Council)	INCA	Infrastructure Finance Corporation Limited (South Africa)
CROCSAD	Comité Régional de Coordination et de Suivi des Actions de Développement (Regional Development Action Coordination and Monitoring Committee)	LA	Local Authority
CRSB	Commission Régionale de Suivi Budgétaire (Regional Budget Monitoring Committee)	LGFI	Local Government Financing Institution
CUVC	Communes et Villes Unies du Cameroun (Union of Cities and Councils of Cameroon)	LoCAL	Local Climate Adaptive Living Facility
DBSA	Development Bank of South Africa	MINATD	Ministère de l'Administration Territoriale et de la Décentralisation (Ministry of Local Government and Decentralization) (Cameroon)
DGD	Dotation Générale de Décentralisation (General Decentralization Budget) (Cameroon)	MINFI	Ministère des Finances (Ministry of Finance) (Cameroon)
DGECT	Dotation de Garantie des Emprunts des Collectivités Territoriales (Local Authority Loan Guarantee Budget)	OHADA	Organisation pour l'Harmonisation en Afrique du Droit des Affaires (Organization for the Harmonization of Business Law in Africa)
DLA	Decentralized Local Authority	PACOM	Programme d'Appui à la Compétitivité de l'Économie Camerounaise (Programme to Support Economic Competitiveness in Cameroon)
DR	Drawing Right	PADER	Programme d'Appui au Développement Économique Régional (Regional Economic Development Support Programme) (Mali)
EPA	Établissement Public à caractère Administratif (Public Administrative Body)	PNDP	Programme National de Développement Participatif (National Inclusive Development Programme) (Cameroon)
EPIC	Établissement Public à caractère Industriel et Commercial (Public Industrial and Commercial Body)	PPIAF	Public-Private Infrastructure Advisory Facility
EU	European Union	PRÉCOL	Programme de Renforcement et d'Équipement des Collectivités Locales (Local Authority Strengthening and Equipment Programme) (Senegal)
FAD	Fonds d'Appui à la Décentralisation (Decentralization Support Fund) (Niger)	RIAFCO	Réseau des Institutions Africaines de Financement des Collectivités Territoriales (Network of African Financial Institutions for Local Governments)
FCE	Fonds Commun Éducation (Common Education Fund) (Niger)	SGI	Société de Gestion et d'Intermédiation (Management and Intermediation Company)
FDL	Fonds de Développement Local (Local Development Fund) (Madagascar)	SP-CONAFIL	Secrétariat Permanent de la Commission Nationale des Finances Locales (Permanent Secretariat of the National Commission for Local Finance) (Benin)
FEICOM	Fonds Spécial d'Équipement et d'Intervention Intercommunale (Special Fund for Equipment and Inter-Municipal Intervention) (Cameroon)	TFP	Technical and Financial Partner
		UNCDF	Ressources Humaines
		UNFCCC	Réseau des Institutions Africaines de Financement des Collectivités Territoriales
		USD	United States Dollar
		WAEMU	West African Economic and Monetary Union

---

# Executive Summary

This document summarizes the key findings of four studies by Institutions & Développement, looking at four local government financing institutions (LGFI) in Africa – Cameroon’s Fonds Spécial d’Équipement et d’Intervention Intercommunale [Special Fund for Equipment and Inter-Municipal Intervention – FEICOM], Mali’s Agence Nationale d’Investissement des Collectivités Territoriales [Local Authorities National Investment Agency – ANICT], Madagascar’s Fonds de Développement Local [Local Development Fund – FDL], and Niger’s Agence Nationale de Financement des Investissements des Collectivités Territoriales [National Agency for Local Authority Funding – ANFICT]. The studies were carried out as part of a joint programme between the Réseau des Institutions Africaines de Financement des Collectivités Territoriales [Network of African Financial Institutions for Local Governments – RIAFCO], the Fonds Mondial pour le Développement des Villes [Global Fund for Cities Development – FMDV] and the United Nations Capital Development Fund (UNCDF), with financial support from the World Bank’s Public-Private Infrastructure Advisory Facility (PPIAF). The aim is to identify the most effective ways to sustain and diversify LGFIs’ financial resources so that they are better able to support local authorities (LAs) in the countries where they operate to bolster their own financial resources.

Section one looks at the political and financial environments in which the LGFIs operate. One of the key features of these environments is fiscal decentralization – an arrangement that, on the whole, precludes LAs from fully exercising their devolved powers. All four LGFIs studied face similar challenges, albeit to different degrees. These include strengthening their financial position, bolstering their human resources, increasing their absorption capacity, improving relations with LAs (notably by providing better-targeted technical assistance), introducing a monitoring and evaluation (M&E) system, and boosting their impact by creating a leverage effect and providing more appropriate financial products.

Section two examines the strategies that each LGFI is pursuing to diversify and sustain the resources at its disposal to support LAs. Madagascar’s FDL receives resources from the Fonds National de Péréquation [National Equalization Fund – FNP], plus local tax receipts (including mining rebates) as part of a horizontal equalization mechanism. Niger’s ANFICT intends to review its LA operational support budget and its equalization fund, to activate its technical assistance budget, and to lay the foundations for access to sector-specific funds that would allow the country’s LAs to fully exercise their devolved powers. Cameroon’s FEICOM is planning to work on its strategy to gain Green Climate Fund (GCF) accreditation, while Mali’s ANICT plans to focus initially on activating its loan guarantee fund to improve LAs’ access to lending, before later exploring ways to access lending directly. The strategies proposed by both FEICOM and ANICT could lay the groundwork for wider access to the bond market.

Sections three and four summarize the main lessons learned from these case studies. All of the LGFIs covered in this study need to strengthen their human and organizational capacities if they are to fully capitalize on the opportunities presented by these new products – climate funds, sectoral funds or equalization resources. In addition they need to prove, through their performance on financial transfers, that they add value as an alternative source of LA funding to direct transfers from central government. It will only be possible to access these funds if governments are willing to place fiscal decentralization on a firm footing, and if LAs are willing to mobilize their own resources.

The conclusion looks at potential avenues for RIAFCO to explore, with an emphasis on LGFI institutional analysis and capacity-building, and on strengthening their cross-cutting and strategic activities. The authors recommend helping LGFIs to showcase the value they bring, setting up an LGFI performance monitoring mechanism, and providing capacity-building support.

# P1

1.1	Background and Introduction	08
-----	-----------------------------	----

# 01

## Background and Introduction

At a time when recent major international agreements (the New Urban Agenda, the Sustainable Development Goals, the Paris Agreement, the Addis Ababa Action Agenda) are recognizing the leading role played by local authorities in development challenges, the question of the location and diversification of funding is a matter of pressing concern.

Joint advocacy efforts between RIAFCO and FMDV in the run-up to the Habitat III Conference led to official recognition of the role of LGFIs as catalysts for national and international public, institutional and private financing to foster sustainable, resilient, inclusive local development.

In October 2016, the United Nations (UN) adopted the New Urban Agenda at the Habitat III Conference in Quito, Ecuador – the first time the organization had officially encouraged development partners to create or strengthen LGFIs.

The priority now is to strengthen the institutional foundations of LGFIs, to ensure they have the human, technical and engineering resources they need to fulfil their mandate, to diversify their sources of finance, and to expand the range of financial and technical services they provide to local and regional governments.

RIAFCO, an innovative network of LGFIs from across Africa, was created in 2014 with precisely this aim in mind. The network, which currently has seven members, seeks to foster peer-to-peer institutional and technical exchange, to promote inspiring practice,

to disseminate innovative models and to give its members a voice in international processes and with technical and financial partners (TFPs).

This study aimed to explore how LGFIs could diversify and sustain their financial resources. It was carried out by Institutions et Développement (I&D) as part of a programme entitled **“Promotion of Municipal Financial Markets through Capacity Building and Knowledge of African Municipal Development Funds”** – a RIAFCO-led initiative in partnership with UNCDF and FMDV and with financial support from the World Bank’s PPIAF.

This cross-cutting summary compiles the findings of four separate studies, each looking at a different RIAFCO member country. The four countries were chosen as a representative sample of the diversity of member LGFIs and different degrees of maturity – one “mature” LGFI (FEICOM, Cameroon), one “intermediate” LGFI (ANICT, Mali), and two “start-up” LGFIs (ANFICT, Niger, and FDL, Madagascar).<sup>1</sup>

The initial aim of this work was to identify ways for each LGFI to develop a municipal lending market. However, this aim was revised to take account of the specific constraints and opportunities in each country once it became clear that the LGFIs in question operated in very different circumstances and had differing degrees of maturity. Consequently, each of the four studies had separate objectives that aligned with the individual LGFI’s priorities. Each study had a specific entry

1

Classification according to “L’état des lieux des IFCL africaines aujourd’hui; Quelles Perspectives pour une transformation de leur Modèle Institutionnel et Économique?” (“Overview of African LGFIs today: prospects for transforming their institutional and economic model”), a joint RIAFCO and FMDV study carried out in 2016 with funding from the Agence Française de Développement [French Development Agency – AFD]. This summary report is based on the content of the above study, plus the four separate reports produced by I&D: (1) Final Report: FEICOM Cameroon: Analysis of Climate Funds and Opportunities for FEICOM; (2) Final Report: ANFICT Niger: Short-term Measures to Strengthen the Financial Resources of the National Agency for Local Authority Funding (ANFICT); (3) Final Report: ANICT Mali: Access to the Lending Market and Local Authorities in Mali; (4) Final Report: FDL Madagascar: Contribution to Strengthening Madagascar’s Local Development Fund.



point: (1) access to innovative climate adaptation funds for Cameroon's FEICOM; (2) implementation of the FNP for Madagascar's FDL; (3) mobilization of additional funding for technical assistance, equalization and LA operational support for Niger's ANFICT; and (4) access to lending for LAs with support from Mali's ANICT.

The following exchange rates were used: 537 CFA francs to USD 1; 656 CFA francs to EUR 1; 3,200 Malagasy Ariary (MGA) to USD 1, and 3,600 MGA to EUR 1.

The team carried out several field missions and met with stakeholders as part of its work. The team visited Niger on 5-17 December 2016, Madagascar on 23 January to 4 February 2017, Mali on 15-27 May 2017, and Cameroon twice, in January and May 2017.

This summary puts the findings of these four studies into context and seeks to identify key lessons, as well as potential avenues for RIAFCO to explore as part of its mission to support LGFIs.

Because the case studies looked at specific subjects (equalization, climate funds, etc.), there was little worth in running a comparative analysis of each LGFI's strategy and policy. These strategies are much more detailed than the outlines given in this report. The intention was not to compare the LGFIs, but rather to identify the key challenges and barriers they face as they seek to better fulfil their role in supporting LAs in their respective countries, as well as how they go about surmounting these obstacles. The tables of contents for each of the four studies are included in the appendix to this report.



UNCDF © Eloïse Pelaud

# 02

2.1	General overview of financial systems in the four countries	11
2.2	Overview of financial and fiscal decentralization in the four countries	12
2.3	The role of LGFIs in financial decentralization processes in the four countries	15
2.4	Key challenges facing the LGFIs	16

# 02

## Financial Decentralization and LGFIS





The four LGFIs studied each operate in different decentralization contexts. Consequently, they enjoy different powers and degrees of maturity. This section looks at financial decentralization strategies and the role of LGFIs in each of the four countries, highlighting key aspects of the environment that enable an LGFI to fully exercise its role.

### 2.1 | General overview of financial systems in the four countries

The studies confirmed the fragile state of financial development and local finances in all four countries. This finding has implications for ambitions to stimulate a municipal lending market because (i) the banking and local finance system lacks dynamism; and (ii) the poor state of local finances inevitably limits LAs' ability to secure loans (since there are major concerns about how creditworthy and financially robust they are). The extent of these problems varied from one country to the next, with the findings showing that financial decentralization is especially fragile in Niger and Madagascar.

On the issue of financial development, the Broad-based Index of Financial Development – developed in 2016 by Katsiaryna Sviryzdenka – compares the state of national financial systems in 183 countries and global government entities. The index is an aggregate of 20 separate indicators looking at how developed financial institutions and national financial markets are in terms of their depth, access and efficiency. The list of indicators can be found in appendix 6 of this report.

**Table 1 | Country rankings on financial development (selected countries in sub-saharan Africa) (2016)**

Country	Financial Development Index		Financial Institutions Index		Financial Markets Index	
	Index	Rank	Index	Rank	Index	Rank
 CAMEROON	0,100	157	0,195	153	0,003	141
 MADAGASCAR	0. 079	171	0. 147	170	0.009	133
 MALI	0.099	158	0.197	152	0.000	152
 NIGER	0.089	163	0.160	164	0.018	123

Source: Katsiaryna Sviryzdenka, *Introducing a New Broad Based Index of Financial Development*, Washington, D.C., IMF Working Paper, WP/165, 2016.

Of the four countries covered in this study, Cameroon has the highest Financial Development Index score, just ahead of Mali, Niger and Madagascar. Conversely, Niger scores highest on the Financial Markets Index, ahead of Madagascar, Cameroon and Mali. Generally speaking, countries in sub-Saharan Africa come in the bottom quarter of the rankings (with the exception of South Africa and Namibia). These indices show that although macro-economic indicators are typically high continent-wide, these four countries are lagging behind when it comes to developing their financial markets and institutions.

These indices are included here not to demonstrate that financial market prospects are poor across most of sub-Saharan Africa, but rather to show that the **LGFIs are operating in a challenging environment and require substantial support,**

irrespective of their chosen strategies. **All of the LGFIs and LAs have a long-term goal of accessing the lending market.** Doing so could lead to the emergence of a sub-national debt market, as is already the case in Europe, North America and Latin America. This is both a worthy and essential goal, given that inclusive, dynamic financial development should form part of the new development strategies promoted by African countries and their partners in the spirit of the 2030 Agenda.

## 2.2 | Overview of financial and fiscal decentralization in the four countries

On the issue of local finance, LAs across all four countries are not sufficiently well-resourced to meet citizens' needs and fully exercise the powers devolved to them by law. To compensate for the often haphazard nature of central government transfers,

LAs benefit from a local taxation system that, while clearly defined, remains very limited and is hampered by poor revenue collection.



### IN CAMEROON,

the Ministère de l'Administration Territoriale et de la Décentralisation [Ministry of Local Government and Decentralization – MINATD] estimates that LAs' resources amount to just 1% of gross domestic product (GDP) and that LA investment expenditures make up only 5% of total public investment expenditures. In 2010-2015, central government transfers to LAs were estimated at 6,150 CFA francs (or EUR 9.30) per capita per year. Although these figures are higher than in Niger and Madagascar, they still fall short of the resources that LAs require to fulfil their mandate. There are several reasons for this situation: the Dotation Générale de Décentralisation [General Decentralization Budget – DGD] is too low, local taxation generates scant resources, the local tax base is too narrow, central government takes too large a share of some LA tax revenues, and LAs do not do enough to mobilize local taxes. Despite this, local taxation accounts for around 80% of LAs' revenues – far higher than in the other countries covered in the study.

The Ministère des Finances [Ministry of Finance – MINFI] is committed to addressing this situation and has confirmed its intent to continue transferring funds to municipalities. The total amount of resources collected and transferred to LAs has increased substantially since a major local taxation reform in 2011, from 54 billion CFA francs (EUR 86.3 million) in 2010 to 168 billion CFA francs (EUR 256 million) in 2015.



### IN MADAGASCAR,

LAs have extremely limited resources, accounting for an estimated 3-6% of the state budget (less than 1% in 2015). Central government transfers to LAs stood at just 904 MGA (or EUR 0.30) per capita per year in 2015, and LAs spend most of their budgets on operating costs (60% of municipalities do not invest). The evidence suggests that government transfers are meagre, irregular and have even fallen in recent years. Local taxation is hampered by revenue collection that falls far short of tax potential. A 2016 study on local finances in Madagascar by Ambre Associates<sup>2</sup> painted a bleak picture of municipalities' ability to "deliver public services to citizens as mandated".



### IN MALI,

the total amount of financial resources available to LAs has increased substantially in recent years. Central government transfers rose by 22% between 2011 and 2013 (albeit with major fluctuations) and account for around 8.5% of the state budget. In 2015, these transfers amounted to 9,782 CFA francs (or EUR 14.90) per capita per year. Local taxation remains extremely limited and, consequently, operating costs make up the overwhelming majority of LA spending. The government still retains control over aspects of local expenditure, thereby limiting the freedom available to LAs, including in terms of devolved powers.

A major new development came in 2014 when the Malian government reaffirmed its commitment to pushing ahead with decentralization in the aftermath of the 2012 political and institutional crisis. The government specifically stated that, by 2018, it intended to increase budget transfers to the country's 761 functioning LAs to 30% of revenues, and that a major portion of these transfers would come in the form of increased government contribution to devolved powers in the areas of education, water supply and health. At end-2017, transfers stood at 18% of revenues, with around 210 billion CFA francs transferred to LAs (11,236 CFA francs, or EUR 17.10, per capita) out of total government revenues of 1,300 billion CFA francs. The 30% target appears difficult to achieve in the short term. Importantly, there are also plans to transfer control of devolved government departments to LAs. Under this arrangement all associated costs, which the government currently covers and will continue to cover (mostly wages), will be accounted for as financial transfers to LAs. While this would allow the 30% target to be met, it could be considered little more than an accounting exercise unless LAs are given greater financial leeway.



## IN NIGER,

local expenditure accounts for just 2-3% of national public spending – one of the lowest figures in sub-Saharan Africa (along with the Central African Republic (CAR) and Chad). Although local taxation is recognized as a source of shared resources between the government and LAs, potential revenues from local taxes are meagre, as is the amount of tax revenue transferred to LAs (22 billion CFA francs, or EUR 33.5 million, in 2015, including 19 billion CFA francs, or EUR 28.9 million, for Niamey Urban Community alone). The financial resources available to LAs fall far short of the amount they need to cover their operating costs, and to build infrastructure so they can improve local services. The transfer mechanism – comprising the Fonds d'Appui à la Décentralisation [Decentralization Support Fund – FAD] and the Fonds de Péréquation [Equalization Fund – FP] – was operationalized in 2014, but the resources allocated to these funds fail to make up the shortfall in funding (5 billion CFA francs, or EUR 7.6 million, in 2014, and 5.6 billion CFA francs, or EUR 8.4 million, in 2015). In 2015, these transfers amounted to 281 CFA francs (or EUR 0.30) per capita per year. As well as being structurally under-resourced, these funds (managed by ANFICT) are hampered by other significant problems – low disbursement rates (only 27% of the FAD and 25% of the FP were disbursed in 2015), a temporary, arbitrary calculation formula, and unpredictability. These issues can only be addressed through reform.

Generally speaking, current financial decentralization systems preclude LAs from exercising their powers devolved to them by law, and from meeting the social and economic needs of the areas they serve.





One of the main reasons behind the structurally low transfers from central government to LAs is the pressure on national budgets in each of the four countries studied. Moreover, local taxation is unable to make up the shortfall because potential revenue is often limited and is vastly under-exploited. Yet there are also other reasons. For instance, sectoral ministries are reluctant to transfer funds to LAs because they do not want to channel resources away from their own investment programmes, most of which are reliant on external funding.

But beyond that, it seems that political leadership is the biggest reason why LAs suffer from a lack of resources. The fact that the decentralization process is “incomplete” implies that government does not see decentralization as a decisive political, institutional and financial choice. For as long as this remains true, the situation is unlikely to improve in any meaningful way (with Niger and Madagascar being prime examples). There are plenty of lessons to be learned from Mali, where the political and security situation brought into sharp focus the need to make real progress on decentralization. The government has announced that it plans to substantially increase transfers to LAs and is already pressing ahead with regionalization. These developments could embed lasting, positive change in the country in terms of financial decentralization. Yet these commitments have yet to materialize (see below). The recent crisis in several regions of Cameroon has also clarified the need to devolve more powers to LAs and could produce similar effects.

Given the fragile state of financial decentralization, LGFIs need to come up with strategies to diversify their resources. This is the central issue addressed in this study, and it will be analysed in depth in the next section. It raises a key question about the value that LGFIs bring to the institutional landscape: **how do (or can) LGFIs help improve financial decentralization by offering a more effective solution than direct transfers from central government to LAs and by helping LAs exercise their powers?**





It would be useful for RIAFCO to produce a model that LGFIs could use to simulate the costs incurred by transfers to LAs and how these costs could be covered. Such a tool would help LAs make the case for transfers in the political dialogue process, since it would generate reliable, consolidated data about the benefits of transferring sector-specific powers to LAs and about the importance of ensuring that LAs are sufficiently well-resourced to exercise these new powers – a situation that, ultimately, would make financial and fiscal decentralization policy more credible. This aspect is covered in more depth in section 5 of this report, which looks at various key subjects that RIAFCO could focus on to highlight the benefits and value of LGFIs in financing local development.

Table 2 | Fiscal decentralization and local finance in the four countries

Indicator	 Cameroon	 Madagascar	 Mali	 Niger
Percentage of state budget	Decentralized local authority (DLA) resources estimated at 1% of GDP.  DLA investment expenditures estimated at approximately 5% of public investment expenditures.	3-6% of the state budget. In 2015: 0.6-0.95% of GDP.	Sharp rise in government transfers to LAs, accounting for 17-19% of government revenues in 2017.	2-3% of national public spending.
Resource of transfers	Transfers estimated at approximately 147 billion CFA francs per year in 2010-2015, i.e. 6,150 CFA francs (EUR 9.30) per capita per year.	Transfers estimated at 21.9 billion MGA in 2015, i.e. approximately 904 MGA (EUR 0.30) per capita per year.	170.9 billion CFA francs in 2015 (including 12.8 billion CFA francs via ANICT), i.e. 9,782 CFA francs (EUR 14.90) per capita.  (NB: this includes wages for teachers transferred to the LA)	Transfers estimated at 4.5 billion CFA francs in 2014 and 5.6 billion CFA francs in 2015, i.e. approximately 281 CFA francs (EUR 0.43) per capita per year.
Transfer as a percentage of LA's resources	In 2015: 79% of LAs' revenues came from local taxation: 27% direct revenues and 52% equalization revenues.	No estimate available.	Approximately 80% from transfers (estimated), part of which comes via the Fonds National d'Appui aux Collectivités Territoriales [National Support Fund for Local Authorities – FNACT].	No significant government transfers, other than in 2014 and 2015.
Transfer mechanisms	Direct transfers to LAs comprise the DGD and other sector-specific transfers.  Local taxation revenues pass via FEICOM. These include "inter-municipal" revenues earmarked for financing investment projects via FEICOM, plus so-called "equalization" resources, which pass via FEICOM for redistribution (Centimes Additionnels Communaux [Additional Municipal Taxes – CAC], annual forestry tax, local development tax, vehicle excise duty and advertising duty).	Government makes transfers directly to LAs.  FDL transfers investment grants.  Creation of the FNP, which will be managed by FDL.	Transfers made directly to LAs.  Approximately 10% of transferred resources pass via the FNACT, which is managed by ANICT and is responsible for distributing these resources.	Government transfers to LAs (FAD and FP) pass via ANFICT.  Eventually, the plan is to have education and health sector transfers pass via ANFICT as well.
Distribution and performance indicators	FEICOM and MINATD are working on a Local Development Index (LDI) to ensure that resources are distributed among municipalities in a fairer, more streamlined way.	Funding granted if certain eligibility criteria are met (including performance criteria for a second wave of funding).  Equalization criteria apply to the FNP (no. of inhabitants, isolation, poverty index, size of municipality).	Drawing rights (DWs) system for all LAs. Formula not published.  The investment window includes a performance criterion (TDRL), but the criterion is relatively ineffectual because the data used to calculate it date back several years.  Regionalization of the FNACT is expected to bring about major change.  Work to establish a system that includes performance criteria is ongoing.	Temporary, somewhat arbitrary distribution formulas (the agreed formulas are not yet in use).
Support for LAs to mobilize resources and financial governance	Local taxation is the main source of income for LAs.  Taxes and duties are now collected by tax departments and the Treasury. FEICOM is no longer involved.	FDL carries out capacity-building work and has created a local governance index.	This support falls within ANICT's mandate, but in practice it provides no support.	Local taxation yields meagre revenues.  Putting the technical assistance window into operation could bolster the support that LAs receive in this area.



**Table 2** | Fiscal decentralization and local finance in the four countries (*continued*)

Indicators	 <b>Cameroon</b>	 <b>Madagascar</b>	 <b>Mali</b>	 <b>Niger</b>
Access to lending	LAs access lending via FEICOM, with the option of combining loans and grants.	Expérimentation en cours de fonds d'initiative (revolving) octroyés à titre remboursable dans le cadre d'un programme avec Coopération suisse	The FNACT has an LA loan guarantee instrument, but it has not yet been activated.	LAs are legally permitted to take out loans, but three previous arrangements of this type met with limited success.
Access to other grant sources	Funding from TFPs.	Funding from TFPs.	Funding from TFPs.	Funding from TFPs.
Access to the bond market	No.	No.	No.	No.

Source : I&D studies, FMDV report and the authors' own estimates based on recent work.

## 2.3 | The role of LGFIs in financial decentralization processes in the four countries

### A strategically important role in Cameroon and Mali

LGFIs – set up by governments to provide LAs with the funds and technical assistance they require to exercise their powers – are not the only channel through which resources are transferred to LAs. Yet there can be no doubt that they play a strategically important role in financial decentralization in Cameroon and Mali.

**Cameroon's** FEICOM (the “mature” LGFI in the sample studied) was founded in 1974. It manages a vast budget (132 billion CFA francs, or USD 250 million, in 2015) and is one of the key pillars of Cameroon's decentralization policy. In fact, FEICOM might be described as the financial arm of the country's decentralization process because of its mandate to centralize and redistribute tax revenues and make DGD transfer payments. According to the 2016 study by FMDV<sup>3</sup>, “the majority of municipal resources in Cameroon come from FEICOM, with some authorities relying on the agency for as much as 80% of their budget”.

Similarly, **Mali's** ANICT has cemented a position as a key player in the country's financial and fiscal decentralization process. Its mandate has been expanded since 2007 and the FNACT has been created to support the transfer powers and resources to LAs. The new FNACT-managed windows have helped to cover new LA needs (technical assistance, investment financing, operating costs, and LA loan guarantees). However, some of these windows are yet to be properly mobilized (with some not mobilized at all), and the evidence suggests that just a handful of sector-specific transfers pass through ANICT (only education and health budget support transfers). According to a 2015 International Monetary Fund (IMF) report on financial decentralization in Mali, ANICT transfers accounted for only around 10% of government transfers to LAs in 2014. The 2017 figures<sup>4</sup> reveal that 13% of transfers to LAs passed via ANICT. As such, in 2018, ANICT is no longer considered a key player in LA funding in Mali. To counter this situation and affirm its position, it must expand the range of services it offers, cut transaction fees, and improve the way it works with its partners.

<sup>3</sup>

See above, Cameroon/FEICOM chapter, page 54

<sup>4</sup>

Source: Direction Générale du Budget (General Directorate for the Budget)

## A less prominent role in Madagascar and Niger, echoing the financial decentralization process more generally

The picture is much more mixed in Niger and Madagascar because of the meagre amount of funding allocated to LAs and passing through the two agencies.

**Madagascar's** FDL is officially recognized as a key pillar of national decentralization and local development policy. However, the country's political crisis has adversely affected its activities – especially its funding activities, where the government has had limited and irregular involvement. The FDL does not currently manage any stable funds, although there are plans to implement the FNP. The agency has nevertheless proven its worth, funding 1,259 projects since its inception and carrying out far-reaching municipal capacity-building work. On the strength of its performance, it has built ever-closer ties with TFPs since 2013, allowing it to plug the shortfall in transfers from central government (the portion of FDL resources coming from TFPs –

principally the World Bank and KfW – jumped to 85% in 2015).

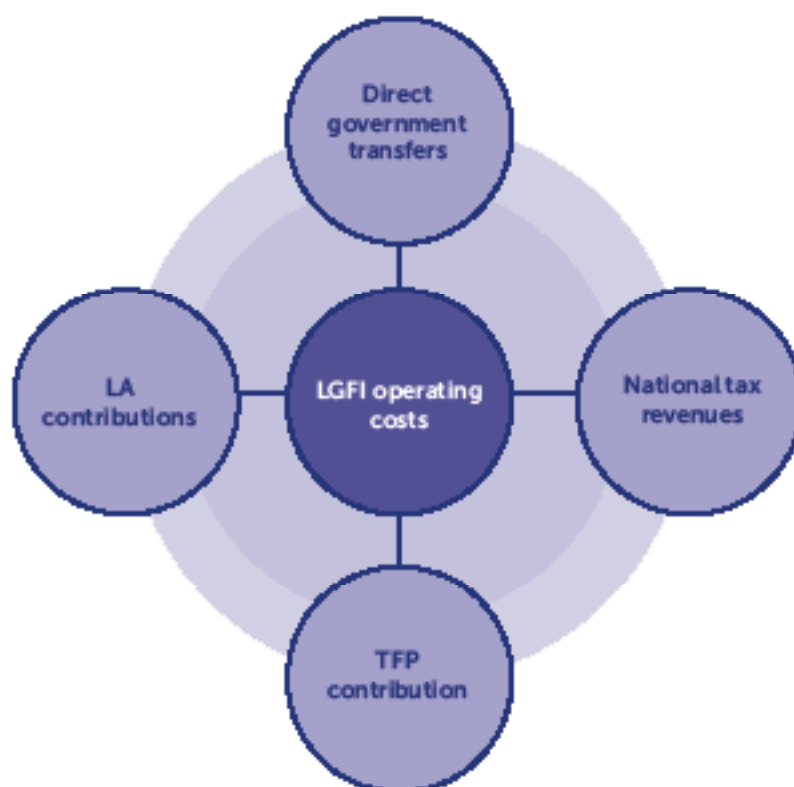
**Niger's** ANFICT has suffered from teething problems. The agency was created in 2007, but it only launched its activities proper in 2014 when the government made its first replenishments of the FAD and the FP (which pass through ANFICT). The agency was supposed to play a vital role in Niger's financial decentralization process, but its situation remains precarious and it is yet to prove its worth. TFPs, meanwhile, are holding back to see whether ANFICT will be able to fulfil its mandate.

## 2.4 | Key challenges facing the LGFIs

### Strengthening LGFIs' financial position

LGFIs cover their operating costs with funding from four main sources: direct government transfers, tax revenues (national taxes or duties), agency fees paid by LAs (as beneficiaries of the services they provide), and funding from TFPs.

Graphic 1 | The four main sources of funding to cover LGFIs' operating costs





The four LGFIs studied have budgets of markedly different sizes, with significant variations in the relative weight of each funding source. There is a relatively clear divide between the most “mature” LGFIs and those whose situation is more precarious. In 2015, Cameroon’s FEICOM had a budget in excess of EUR 15 million, whereas Madagascar’s FDL had to manage with around EUR 100,000. Having a stronger financial base is vital to an LGFI securing its long-term future, and there is pressing need for agencies to diversify their funding sources.

**These resources can vary significantly from one year to the next**, even in countries where LGFIs have sizeable budgets, because governments reserve the right to increase (or reduce) their contribution to LGFIs’ operating costs as they see fit. Similarly, TFP contributions to LGFIs’ operating costs tend to be linked to a specific programme, and the amount of funds that agencies have at their disposal to transfer to LAs varies unexpectedly, meaning that LGFIs are uncertain how much revenue they are likely to collect in agency fees.

Generally speaking, **the resources that LGFIs receive are structurally imbalanced, with some agencies relying too heavily on funding from TFPs**. In 2015, for example, TFP funding accounted for 34% of ANFICT’s operating budget. In Madagascar, the government is supposed to fund FDL’s operating costs and TFPs are only supposed to contribute to investment expenditures. In practice, however, donors make a sizeable contribution to the agency’s operating budget – in 2015, TFP funding accounted for more than 85% of FDL’s total budget (operating costs and investment expenditures), whereas the government’s contribution was 14.33%. Most of ANICT’s resources come from agency fees (commission deducted from government and partner investment grants), which accounted for 85% of its total budget in 2014, and 82% in 2016. Once again, Cameroon is the exception to the rule because tax revenues cover most of FEICOM’s operating costs. The agency is able to mobilize funds on this scale chiefly because it has its own department responsible for monitoring how the tax revenues that it subsequently redistributes are mobilized, because there is an established system for monitoring and inspecting tax revenues, and because it has a good working relationship with tax collection and redistribution departments at the Ministry of Finance. This strength also has adverse consequences, because FEICOM is heavily dependent on Cameroon’s public taxation system, which itself is prone to eventualities that can affect how much funding it receives.

Moreover, the evidence suggests that **some provisions around which financial resources LGFIs can mobilize are not applied in practice**. In Niger, ANFICT is supposed to receive certain tax and duty revenues to cover its operating costs, but this system is not yet effective. In Mali, meanwhile,

ANICT is supposed to be able to generate revenues from financial products (term deposit investments), but this option has yet to be activated.

While some LGFIs are able to seek contributions from LAs, this additional funding channel is only rarely harnessed (in the form of agency fees, commission on tax revenue transfers, or direct contributions as provided for in the texts governing ANICT and ANIFCT). Such contributions would be highly symbolic, helping to strengthen LGFIs’ legitimacy and capacity for action. While these contributions would provide a vital source of additional funds, **such an arrangement would force LGFIs to prove their worth in the broader LA resource transfer mechanism and to show how they add value when compared with direct government transfers**.

This aspect was brought into sharp focus in the 2015 Pfeiffer report<sup>5</sup> on the institutional capacities of ANFICT in Niger. According to the authors, the agency’s operating (and equipment) budget was 329 million CFA francs (USD 612,600), or 7% of the amount actually transferred to LAs. The following year, the budget increased to 1,274 million CFA francs (USD 2.3 million), including 847 million CFA francs from TFPs. The government’s contribution was equivalent to 11% of total transfers to LAs. When donor contributions (427 million CFA francs, or USD 800,000) are included, this figure jumps to 16%, leading to the conclusion that “ANFICT is still failing to offer any value above and beyond the Treasury’s role”.

The fact that TFPs make such a large contribution to the LGFIs’ operating budgets (other than FEICOM) reveals a structural weakness that, in addition to impacting predictability and undermining their political and financial situation, could complicate management processes and even limit the potential for equalization because external partners target different regions and/or sectors. This problem is particularly acute for Mali’s ANICT.

Table 3 | Overview of the LGFIs studied





Statut	Mandate	Activities	Budget (2015)	Funding source/ Partners	Governance	Geographical reach	Challenges
 <b>FEICOM - CAMEROON</b>							
Établissement Public à caractère Administratif [Public Administrative Body – EPA] created in 1974 (EPA status in 2000).	<p>Fostering mutual assistance between municipalities through solidarity contributions and cash advances.</p> <p>Financing municipal and inter-municipal investment work.</p> <p>Covering training costs for municipal and civil registry staff.</p> <p>Centralizing and redistributing taxes subject to equalization.</p> <p>Identifying external resources for LAs.</p>	<p>Transferring a portion of tax revenues.</p> <p>Issuing grants, loans, cash advances and guarantees.</p> <p>972 projects funded in 2012-2016, totalling 88.6 billion CFA francs (EUR 135 million).</p>	<p>Total budget of 132 billion CFA francs in 2015.</p> <p>Operating budget (current expenditure) of 7.7 billion CFA francs (EUR 11.7 million) in 2015.</p>	<p>Taxation, LA contributions, revenues from activities, TFPs.</p> <p>Not dependent on TFPs to cover its operating costs.</p>	<p>Under the joint authority of DLAs and the Ministry of Finance.</p> <p>Board of Directors comprising seven government representatives, four LA representatives and one staff representative.</p>	10 regional branches covering the entire country.	<p>Mobilizing additional resources to meet LAs' needs.</p> <p>Improving its absorption capacity (internal and LA capacities).</p> <p>Adapting its instruments (legal status, accounting instruments).</p>
 <b>FDL- MADAGASCAR</b>							
EPA created in 2007.	<p>Issuing investment grants to LAs.</p> <p>Building the capacities of LAs and other local entities partnering with them on local development projects.</p>	<p>1,200 of 1,549 LAs received FDL investment grants in 2009-2014, funding 1,259 projects (in addition to several inter-municipal projects).</p> <p>FDL also played an important capacity-building role (training 1,611 treasurers, accountants, elected officials, government officials, etc.).</p>	<p>Total budget (2010-2015) of 216 billion MGA (USD 66 million).</p> <p>Total amount granted to LAs:</p> <p>– 2014: 1,227 billion MGA</p> <p>– 2015: 327 billion MGA (EUR 109million ).</p>	<p>Central government transfers.</p> <p>TFPs (which accounted for 86% of finance awarded to LAs in 2015).</p>	<p>Under the joint authority of the Ministry for Decentralization and the Ministry of Finance.</p> <p>Board of Directors comprising seven government representatives plus a nine-member college of LAs, civil society organizations (CSOs), non-governmental organizations (NGOs) and Members of Parliament (MPs).</p>	Plans to open regional branches throughout the country. Four regional branches are open, but there are doubts over their long-term viability because they were created under projects funded by TFPs (World Bank and KfW).	<p>Confirming political leadership of decentralization in Madagascar.</p> <p>Addressing the shortage (and unpredictability) of financial resources.</p> <p>Strengthening LAs' monitoring capacities.</p> <p>Strengthening internal capacities (especially programming, execution and M&amp;E).</p> <p>Managing major upcoming programmes.</p>

Table 3 | Overview of the LGFIs studied (*continued*)

Statut	Mandate	Activities	Budget (2015)	Funding source/ Partners	Governance	Geographical reach	Challenges
 <b>ANICT- MALI</b>							
EPA created in 2000.	<p>Receiving investment grants and allocating them to LAs.</p> <p>Equalizing grants in accordance with LAs' development status, using government-defined criteria.</p> <p>Helping LAs build infrastructure to develop local services.</p> <p>Encouraging LAs to mobilize more of their own financial resources.</p> <p>Guaranteeing loans taken out by LAs to fund their investments.</p>	<p>In 2000-2014, ANICT awarded 193 billion CFA francs (EUR 294,226,603) in grants to the country's 761 LAs, most of which went to fund 18,481 projects – or 1,200 projects per year on average. ANICT also manages a technical assistance fund.</p>	<p>In 2015, its total budget stood at around 30 billion CFA francs.</p> <p>In 2016, its operating budget was 1.32 billion CFA francs (approximately EUR 2 million).</p>	<p>The FNACT is managed by ANICT. Its resources come from central government budget transfers and special grants, LA contributions, TFP contributions, and revenues generated from term deposits (although this option has never been activated).</p>	<p>Under the joint authority of the Ministry for Decentralization and the Ministry of Finance.</p> <p>Twelve-member Board of Directors including the president, three government representatives, seven LA representatives and one staff representative.</p>	<p>Nine regional branches covering the entire country.</p>	<p>Increasing and diversifying its financial resources (the government's relatively low financial commitment poses a major risk).</p> <p>Reducing its heavy dependency on TFPs (which could adversely affect its equalization capacity).</p> <p>Operationalizing all funding windows.</p>
 <b>ANFICT- NIGER</b>							
EPA created in 2008 but not operational until 2014.	<p>Managing and distributing resources allocated to LAs to help cover operating and LA-led investment costs.</p>	<p>The first transfers were made to LAs in 2014. 760 micro-projects were funded via the FP in 2014 and 2015.</p> <p>FAD disbursement rate of 38% over the two years.</p>	<p>Total budget of 6,874 billion CFA francs (EUR 10.4 million).</p> <p>Operating budget (2015):</p> <p>1,274 million CFA francs (EUR 1.9 million).</p>	<p>Operating costs: direct government transfers, agency fees, TFP contributions, LA contributions (not effective), tax and duty revenue transfers (not effective).</p>	<p>Under the joint authority of the Ministry for Decentralization and the Ministry of Finance.</p> <p>LAs hold the majority of seats on the Board of Directors.</p>	<p>Plans to set up Regional Advisory Boards and Regional Delegations.</p> <p>Four Regional Delegations currently being installed.</p>	<p>Stabilizing its governance arrangements and financial resources.</p> <p>Strengthening its key functions (planning, fiduciary function, audit and inspection).</p> <p>Overhauling its working practices (HR, accounting, etc.).</p> <p>Improving its absorption capacity.</p>

Source : I&D studies, FMDV report and the authors' own estimates based on recent work.

## Strengthening LGFIs' institutional and organizational capacities : financial management, absorption capacity and human resources

This is a key challenge that LGFIs need to address if they are to help build momentum around the financial decentralization process. LGFIs will only be treated as credible and be able to channel more funds to LAs if they can prove that they use the resources at their disposal efficiently and transparently.

**It is therefore vitally important to build their financial management capacities.** Cameroon's FEICOM has set a positive example by introducing a quality management system (QMS) in 2008 and subsequently obtaining ISO 9001 certification. Now, the agency urgently needs to consolidate this process by finalizing its procedures manual and updating its quality management policy to bring it in line with ISO 9001:2015. Madagascar's FDL, meanwhile, systematically has its financial statements externally audited – another good example of transparent, high-quality management in action. ANICT also commissions an annual external audit of the FNACT's financial statements (this audit is specifically mentioned in the fund's internal regulations and procedures manual), and the agency hired an internal auditor in 2018.

Additionally, LGFIs need to **increase their absorption capacity and become better at transforming investments into tangible improvements for service users.** LGFIs could play a key role in channelling more resources to municipalities by showing that the funding they award is managed efficiently (see above) and makes a real difference to local public service standards. LGFIs need to do more to increase their

absorption capacity, notably by improving internal procedures (breaking down silos between departments, hiring more human resources, and relaxing some of the restrictions on public finances). Doing so will, in turn, help them improve their disbursement capacity in Niger and Madagascar in particular, but also in Cameroon and Mali.

There is a clear link between this issue and the fact that LGFIs face a (sometimes severe) shortage of financial resources – especially in Madagascar, where FDL has a team of skilled and motivated staff but lacks the manpower it needs to fully exercise its mandate.

In Cameroon and Mali, the agencies have enough human resources to carry out their duties, but current staffing arrangements mean they are not equipped to handle the new challenges outlined in this report (access to innovative finance, access to lending, sector-specific transfers). A 2017 institutional audit of Niger's ANFICT by the Centre International d'Études pour le Développement Local [International Centre for Local Development Research – CIEDEL] highlighted major skills gaps in engineering and supervision, planning and programming, and human resource management.

The LGFIs covered in this study also face a shortage of qualified personnel in financial engineering, M&E, database management and IT.

## Strengthening LA relations and technical assistance

As indicated previously, all four LGFIs are tasked with building LAs' capacities, especially on project management and financial governance. This is a key aspect of the support that LGFIs provide, helping to increase absorption capacity and extend the coverage of LA-provided services.

**LGFIs' absorption capacity is directly linked to LAs' own absorption capacity,** which is universally poor because they lack project management expertise, because the funding application process is overly complex, and because they do not receive enough technical assistance. LGFIs therefore need to step up their efforts on this front if they are to demonstrate the value they bring to the financial decentralization process.

This observation even applies to countries with "mature" LGFIs. FEICOM is aware of this issue and is currently considering setting up a new department to carry out research and put together proposals on behalf of LAs. The FNACT assessment report produced by Groupe Suivi Budgétaire [Budget Monitoring Group – GSB]<sup>6</sup> found that, among the sample of LAs included in the study, mobilization of drawing rights for the investment channel barely exceeded 50% in 2016. This situation poses a real challenge for LGFIs, which need to better coordinate their financing, technical assistance and performance evaluation systems if they are to make a real difference to fund-absorption capacities.

As a consequence of the previous point, all four **LGFIs face difficulties in exercising their technical assistance and project management support roles**, although there is a marked contrast between the situation in Cameroon and Mali (where FEICOM and ANICT have support systems that cover much of the country and boast large regional teams) and in Niger and Madagascar (where ANFICT and FDL are only just beginning to deploy this system locally). This weakness adversely affects both their operations and their image, because having an LA funding system that is highly centralized (in the country's capital city) gives the impression of top-down decentralization and decision-making processes with scant regard for local needs. FDL's decision to open regional branches in Madagascar (two are already up and running) will help change this perception, provided that this regional presence is more than a symbolic gesture and plays a meaningful role in FDL's decision-making process. Yet LGFIs will continue to find it hard to establish a regional presence – and, more importantly, take regional action – because regionalization is a costly endeavour that adds yet another layer of bureaucracy. If it does happen, it will need to align with the broader regionalization drive as part of the decentralization process as a whole. In Mali, there are questions around which entity or entities (ANICT's regional branches or regional authorities) should take the lead on regional economic development.

**Capacity building is another key aspect of LGFIs' relationships with LAs.** In Madagascar, FDL has embarked on a far-reaching programme to train treasurers and accountants and has made transfers conditional on completion of this training. It has also introduced a peer-to-peer training scheme to provide local support and compensate for its limited geographical coverage. In Cameroon, FEICOM is also actively engaged in LA capacity building. It is the main source of funding for the Centre de Formation pour l'Administration Municipale [Municipal Administration Training Centre – CEFAM] and also runs a special window to fund LA study visits (through cash advances). In Mali, ANICT has a dedicated technical assistance window, although much of this funding has now been reassigned to the Centre de Formation des Collectivités Territoriales [Local Authority Training Centre – CFCT], making it less likely that the funds can be mobilized directly for LAs. Meanwhile in Niger, ANFICT's

procedures manual includes provisions for a technical assistance window, although it is not yet up and running. A feasibility study was carried out in 2017 with a view to operationalizing the window.

While LGFIs have an important role to play, this role **needs to be strengthened and better coordinated with their financial function.** Moreover, competition between LGFIs and other special-purpose bodies highlights a broader consistency problem within the institutional framework around decentralization – especially in Madagascar, Niger and Cameroon (with the creation of the Programme National de Développement Participatif [National Inclusive Development Programme – PNDP]). In all cases, LGFIs need to make the services they offer more consistent and better targeted.

## Establishing performance monitoring and evaluation systems

The issue of performance monitoring is manifested in many different ways.

**Funding is not always conditional on performance indicators, and conditionality remains relatively weak.** There are, however, examples of progress on this front. In Cameroon, for instance, FEICOM now requires LAs to show a certain degree of financial discipline if they are to be eligible for loans. According to Communes et Villes Unies du Cameroun [Union of Cities and Councils of Cameroon – CUVC] (cited in the 2016 FMDV report), this has led to a marked improvement in municipal management practices.

There is a similar set-up in Madagascar, where funding is conditional on LAs meeting certain training criteria and submitting their financial statements for inspection, and where there are performance criteria for a second wave of funding. However, because the amount of funding available is so small, this arrangement makes only a small contribution to building LAs' financial and fiscal governance capacities. The introduction of a local governance index, including several municipal performance indicators, is expected to drive major improvements in evaluating performance in Madagascar (provided that performance is given

due consideration). In Mali, there are also plans to introduce a conditional transfer system, reportedly including meaningful LA performance criteria.

**Moreover, performance criteria demand a powerful information system** so that fund allocation criteria can be properly applied. In most cases, such a system is currently lacking. In Mali, for example, the performance criterion used to determine investment allocations has not been updated since 2012. The formula is consequently relatively ineffectual and does little to encourage LAs to adopt good management practices. A recent study proposed a new LA performance evaluation system and recommended introducing a new performance-based allocation within the FNACT.

Moreover, the evidence indicates that all the LGFIs find it particularly difficult to monitor the investments they have funded, especially when it comes to upkeep and maintenance. Monitoring and evaluation is a matter of vital importance for LGFIs, since their ability to achieve leverage and develop instruments that drive financial and fiscal decentralization depends to a large extent on LAs' own ability to make effective use of the funds granted to them.

## Developing suitable products to improve LGFIs' leverage effect

The studies of the four countries present a mixed picture of the impact of LGFI-backed actions. While LGFI-supported infrastructure projects have delivered impressive outcomes – especially in Cameroon, Mali and Madagascar (transfers only began in Niger in 2014) – **it remains to be seen whether LGFIs are genuinely able to achieve the leverage they need to develop new resources that will spur local investment.**

Opponents of this view might argue that, by providing a functioning mechanism for transferring resources to LAs, LGFIs have encouraged TFPs to channel more funds into local development and now manage significant resources

for this purpose (albeit to varying degrees). Across all four countries – even in Madagascar and Niger, where the LGFIs are in a more precarious state – TFPs have opted to channel large sums of money through these agencies. Yet this is more to do with TFPs' determination to find a vehicle capable of channelling their funds, rather than with the appeal of LGFIs per se. Importantly, most donors would be prepared to mobilize even more funding if LGFIs performed better. Some LGFIs (such as Niger's ANFICT) struggle to fulfil their core purpose – transferring grants and providing technical assistance to LAs – making some LAs begin to question whether sector-specific funds should be managed by these agencies at all.

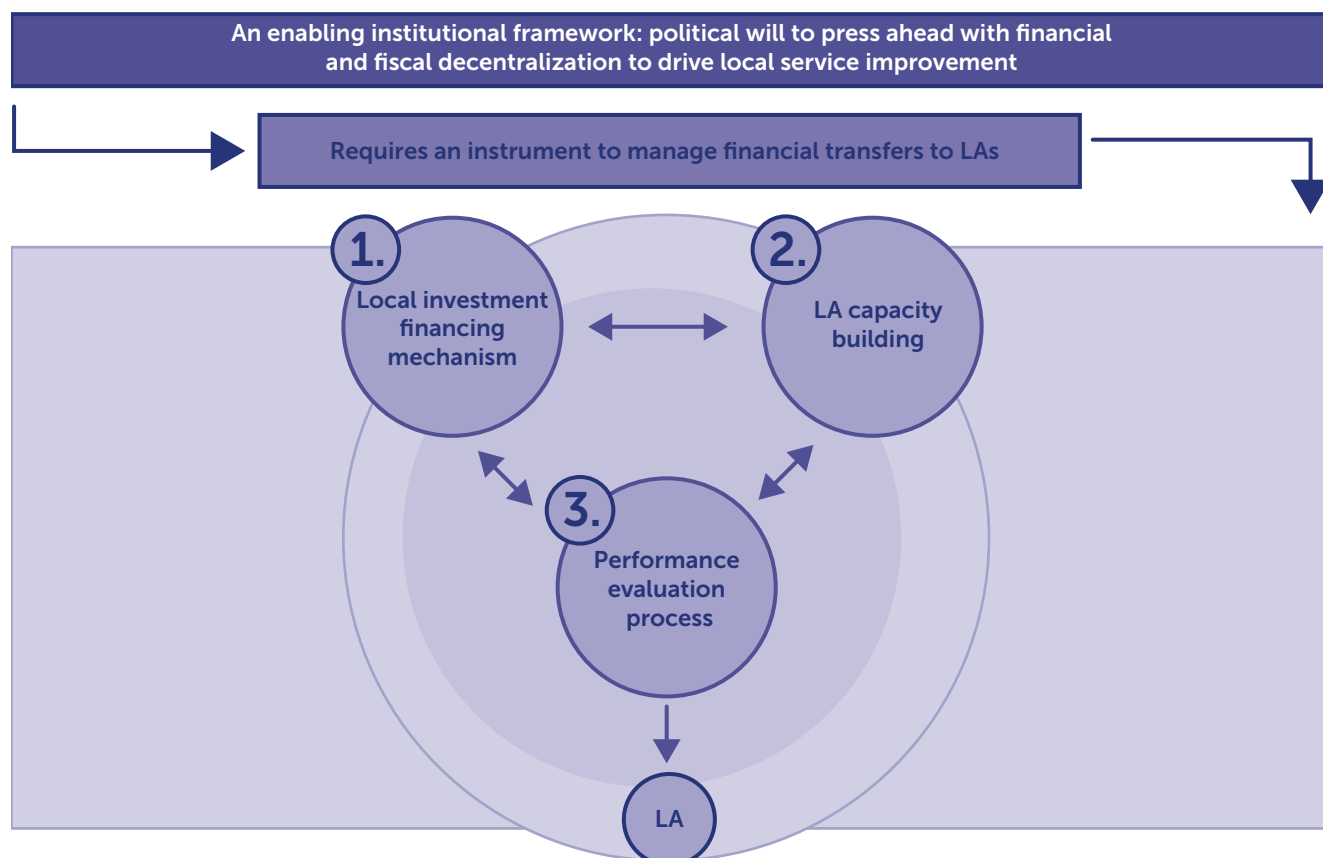
There are doubts around their ability to produce a leverage effect, especially in Mali, where a recent FNACT audit (GSB, 2017)<sup>7</sup> found that the agency's transactions costs were relatively high, while there were apparently lengthy delays in notifying and mobilizing drawing rights, the cost of investment projects meant that no real savings were achieved, and the quality of investments could be improved.

Leveraging local investment and building LAs' capacities are central to the entire purpose of LGFIs. Yet all the evidence suggests that, as things stand, they are failing to deliver when it comes to attracting new funding for LAs.

## Summary

Looking strategically at the role and development of LGFIs, the six key challenges they face can be divided into two separate areas:

1. LGFIs need to demonstrate the value they add by better coordinating the three components of a local, performance-boosting support system for LAs:
  - i. developing appropriate financial products for LAs;
  - ii. working with other partners to provide technical assistance to encourage LAs to make proper use of the resources transferred to them, and to improve consistency around accessing loans;
  - iii. establishing a transparent LA performance evaluation system and monitoring investments.
2. LGFIs struggle to satisfy international management standards, making it difficult for them to gain official recognition as financial institutions or to fulfil their responsibilities, and meaning that they are often precluded from sources of multilateral finance such as environmental funds (which have management requirements that are similar to these international standards).



# 03

3.1	What does “sustaining LGFIs’ resources and action” mean?	25
3.2	Cameroon: How can FEICOM satisfy environmental fund eligibility criteria?	26
3.3	Madagascar: How could an equalization fund help sustain FDL’s resources?	28
3.4	Mali: What does ANICT need to do now, and in the long run, to facilitate access to loans?	30
3.5	Niger: How can ANFICT sustain its action?	33



## 03

## Sustaining LGFIs' resources and actions: Four case studies

The studies showed that having viable, predictable resources is vital to the long-term sustainability of LGFIs and the work that they do. This section sets out a series of proposals, for each LGFI studied in the programme, on how they might go about diversifying their resources.

Each of the four studies, carried out on behalf of RIAFCO and the individual network members, seeks to answer the following questions :



**Cameroon** : How can FEICOM satisfy environmental fund eligibility criteria?



**Madagascar** : How could an equalization fund help sustain FDLs resources?



**Mali** : What does ANICT need to do now, and in the long run, to facilitate access to lending?



**Niger** : What options are available to ANFICT to sustain its action?





## 3.1 | What does “sustaining LGFIs’ resources and action” mean?

Before discussing how to sustain LGFIs’ resources, it is first necessary to clarify what the concept of “sustainability” means for organizations such as these.

### Resources are vital to LGFIs’ legitimacy

All four LGFIs are seeking to increase the resources available to them and to make these resources sustainable. At the same time, they are looking to improve their action. The second goal is both a consequence of the first, and the main path to achieving it. An organization cannot act without resources and it cannot lay claim to resources without effective action.

As public-sector organizations, LGFIs are heavily dependent on the government for their resources and the scope of their activities. The government determines how they are funded and what their mandate is. They operate in the public sphere. Because the government gives them this legitimacy, LGFIs are able to mobilize the financial, organization and human resources they need to exercise their mandate. Nevertheless,

without government support, LGFIs lack the capacity to transform this legitimacy into resources to support their action.

The best way to bolster LGFIs’ resources and action is to increase the resources available to them or to give them access to new sources of finance. Yet the key question is whether government and politicians have the will to significantly improve the conditions that underpin LGFIs’ legitimacy. LGFIs can only build this political will if they can demonstrate the value that they add.

### Bolstering the resources available to LGFIs and/or LAs

It is important to distinguish between the resources available to LGFIs and LAs. Ultimately, the purpose of creating an LGFI or a similar institution is to improve citizens’ living conditions. Although it goes without saying that building LAs’ capacities can help improve these conditions, the link between LAs’ and LGFIs’ prosperity is not so clear-cut. Through their action, LGFIs might well succeed in strengthening LAs’ institutional, organizational and human capacities. But, equally, LAs with substantial resources and powers at their disposal could also help bring about more effective, well-functioning LGFIs. In other words, the causal link goes both ways. LGFIs can only build their capacities, and sustain and diversify their resources, if LAs’ capacities are strengthened too.

Diversifying and sustaining resources is a key challenge that all LGFIs face. They need to persuade the authorities to boost their legitimacy within a reinvigorated decentralization process. In doing so, they will be better able to demonstrate the value they bring at a time when LAs also find themselves in a stronger position. This is an ongoing challenge across all countries and for all LGFIs, no matter how mature they are.





## 3.2

## Cameroon : How can FEICOM satisfy environmental fund eligibility criteria?

FEICOM was created in 1974. Its mandate is to provide mainly financial and technical assistance to support Cameroon's DLAs with their development process. Its duties are as follows: (i) fostering mutual assistance between municipalities through solidarity contributions and cash advances; (ii) financing municipal and inter-municipal investment work; (iii) covering municipal staff training and civil registry costs; and (iv) centralizing and redistributing Centimes Additionnels Communaux [Additional Municipal Taxes – CAC] and other local taxes subject to equalization (annual forestry tax, vehicle excise duty, advertising duty and local development tax).

## FRAMEWORK : Environment funds: a new opportunity for LAs and FEICOM

Climate and environmental funds offer a genuine opportunity for LA financing. In the aftermath of COP21 and COP22, various initiatives and conferences have sought to strengthen the role of LAs in devising and implementing climate change adaptation and mitigation programmes. LAs have extensive powers in areas such as land-use planning, urban development and transport, environmental themes (natural resource management and sustainable economic growth incentive schemes), and social initiatives (including hygiene and sanitation).

Like other LGFIs, FEICOM lacks the funds it needs to fully meet LAs' needs. It has therefore sought to diversify its resources by tapping into the opportunities offered by these environmental and climate funds.<sup>8</sup> These funds provide different types of support, typically involving financial assistance (loans, concessional lending, grants, contingent grants, capital investments, market-rate loans, guarantees and insurance), technical assistance, or capacity building.

## Financial intermediation: opportunities for FEICOM and LAs

Although environment and climate issues concern LAs directly, they have limited involvement in these matters because: (i) their limited engagement in these issues does not produce rapid outcomes or translate directly into electoral success; (ii) they tend to focus their meagre resources on other (social) issues because these are given greater priority by citizens; and (iii) they lack the organizational capacities (especially human resources) to prepare and present complex funding applications. However, in areas where the effects of climate change are felt more acutely (such as in the north of the country), citizens are more ready to engage with these issues and get behind their LA if it demonstrates a certain degree of willingness. Yet even in cases like these, LAs are poorly equipped to meet the strict requirements attached to these funds and require a financial intermediary to assist them. This role could be fulfilled by an LGFI such as FEICOM. Moreover, environmental funds prefer to deal with financial intermediaries because they are not equipped to handle applications coming directly from LAs.

This financial intermediation could take one of two forms :

- **providing individual assistance** to LAs looking to put together a funding request for submission to multiple potential donors;
- **designing one or more climate change and/or adaptation programmes covering** a series of LA-related actions, to which LAs could sign up to access appropriate support and finance.

The second solution is probably the best way to overcome the difficulties that LAs have in accessing these funds, as well the lack of credibility affecting most LAs. This could be achieved by LGFIs opening a dedicated window financed by resources from environmental funds. The window should be relatively straightforward to access, so as to encourage LAs to engage in climate change projects.

## The complexity of environmental funds: focusing on multilateral funds

Environmental finance mechanisms are extremely complex in structure. The system includes: (i) **multilateral finance** channels (connected with the United Nations Framework Convention on Climate Change (UNFCCC) or otherwise); (ii) **bilateral** channels (which are increasing in number); and (iii) **national climate funds**, which some beneficiary countries have set up to receive climate finance. The Cameroon report outlines all of the options available and recommends focusing on multilateral funds connected with the UNFCCC (the **Global**

**Environment Facility** (GEF), the **Adaptation Fund** (AF) and the **Green Climate Fund** (GCF)). Funds of this type require applications to come from accredited entities (the accreditation requirements vary from one fund to the next). FEICOM, or even LAs, could work with an existing accredited entity to submit an application. FEICOM could also become a GCF-accredited entity in its own right and act as a financial intermediary for LAs. This was the strategic option chosen in the FEICOM study.

## Access conditions: the GCF

There are two ways to access the GCF – via another **accredited entity** (indirect access) or by **becoming an accredited entity** (direct access). There are various **levels of accreditation** according to :

- i. **the project size** category (micro: <USD 10 million; small: USD 10-50 million; medium: USD 50-250 million; and large: >USD 250 million).
- ii. **the fiduciary functions** for which the entity is seeking accreditation: basic or specialized (project management, grant award, loan allocation);
- iii. **the environmental and social risk categories** into which the proposed projects fall: A (high), B (medium), C (low).

Under certain conditions, candidate entities are entitled to support to make sure their accreditation application meets GCF requirements. The GCF requires the country in question to participate in the process by appointing a national government body to act as the interface between the fund and the country. The appointed interface plays a vital role in approving GCF accreditation requests, applications for

the above-mentioned support programme, and project and programme proposals. The accreditation process contains four main stages: stage 0: the application is submitted; stage I: the application is subject to a completeness check; stage II: the application is examined by an expert panel and the accreditation committee makes its decision; stage III: the formal legal agreements are signed.

Accreditation decisions are made according to three key criteria: **(i) fiduciary principles and standards (basic and specialized); (ii) environmental and social safeguards; and (iii) gender policy.** Candidates are required to submit extensive information and documentation, and the GCF demands documentary evidence as opposed to simply candidate declarations. It checks every detail thoroughly and seeks clarification and additional information where required. The GCF's accreditation requirements – along with the requirements of other major multilateral funds – align closely with internationally recognized good management practices.

## Devising an action plan to meet the accreditation criteria

FEICOM was assessed against each of the GCF accreditation criteria to determine whether it met the requirements. Although the agency does not currently satisfy all of the criteria, it could take the initiative and devise an action plan to address those areas where it falls short.

In order for FEICOM to achieve accreditation, it should focus its efforts on meeting the fiduciary standards. To satisfy the “basic” standards, it will need to finalize its procedures manual, operationalize its enterprise resource planning (ERP) system, and set up an accounting system that is partly dual-linked to a cost accounting system. As for the specialized standards, it will need to improve the way it examines loan applications and assesses financial risks. Moreover, in order to meet the environmental and

social safeguards requirements – and given the weakness of LAs – it must only support applications that fall into risk categories B and C (the lowest environmental and social risks).

In addition to these vital internal measures, FEICOM must also adapt its financial instruments to encourage more LAs to apply for climate change funding. Although opening a specialized funding window may seem an adequate response, alone it is not sufficient: FEICOM also needs to run a medium- and long-term support programme to raise awareness among LAs, and to help them devise and implement climate change actions. Projects and programmes of this type are eligible for GCF funding, and the window is one way of operationalizing this funding.





FEICOM's action plan, which draws on the above findings, contains seven priorities divided into two categories :

- four "cross-cutting" priorities, focusing on building FEICOM's institutional capacities so it is able to meet the accreditation requirements: (i) finalizing its strategy and adjusting its internal organization; (ii) revising the management system; (iii) revising its financial instruments; and (iv) revising and strengthening its human resources.
- three targeted priorities, focusing on developing tools to help DLAs access climate finance: (v) developing a special financial instrument to fund individual LAs' climate change projects; (vi) designing a programme to fund LAs' climate change projects; and (viii) creating a new FEICOM climate change project support unit.

## Limitations and outlook

While the analysis, action plan and path ahead may appear relatively straightforward, it remains to be seen whether FEICOM and LAs have the absorption capacity to rise to the challenge. Their success depends directly on both the quality of staff engaged in this process, and the agency's capacity to follow a process of this type through to completion.



### 3.3

**Madagascar : How could an equalization fund help sustain FDL's resources?**

## FRAMEWORK : Building financial solidarity between LAs through the FNP

Madagascar's FDL was created in 2007 and has been operational since 2009. The agency has two core missions: (1) allocating investment grants to LAs; and (2) building LAs' capacities.

To date, capacity building in municipalities has formed the bulk of its work. The amount of funding available to support investments has fallen steadily in recent years, to just 216 million MGA (USD 67,500) in 2015. In the same year, TFP funding as a proportion of total FDL resources jumped to 85% (the agency received substantial funding from the World Bank and KfW, as mentioned previously). Although the FDL is unlikely to have survived without these contributions, it is still not in a position to fulfil its mandate, especially when it comes to allocating investment grants.

Plans to set up the FNP were floated in 2014 and the fund was officially created in 2016. Its purpose is to iron out inequalities (in resources and other areas) between LAs. The FDL-administered FNP awards special investment grants to eligible LAs to help them bridge the gap with other authorities. The FNP is something of a backstop solution, since the FDL could provide regular matching funds from deductions on local revenue streams. The fact that these deductions come primarily from resources originally intended for LAs (such as the combined business tax) reinforces the equalizing nature of the system – the richest LAs pay more into the fund than the poorer ones.

## The FNP: an imprecise, hard-to-implement mechanism that poses major challenges for FDL

If the FNP is to help sustain FDL's resources, it needs to meet several requirements :

1. It must have solid conceptual foundations and help reduce inequalities by fostering solidarity between LAs;
2. It must be effective at collecting the following revenues: 10% of revenues from the combined business tax, 20% of revenues from the hydrocarbon duty, 10% of revenues from mining resource extraction (as per the Mining Code), and 100% of revenues from the tax on audiovisual advertising and broadcast competitions;
3. It must have a sufficient matching contribution (at least USD 1 million per year) and must be able to assess the size of this contribution;
4. The eligible expenditure formula must enable FDL to collect reasonable agency fees to cover the cost of implementing this new programme;
5. It must have a leverage and catalysing effect by generating other sources of funding from government and partners;
6. It must use tools such as the local governance index and contribute to rebuilding momentum around the decentralization process;
7. It must be able to target the poorest LAs to maximize its impact and allow FDL to interact with all LAs across the country;
8. Grants must be allocated in a simple, transparent manner;
9. FDL must work with its partners to provide appropriate technical assistance and capacity building to LAs, so they are better equipped to design and manage investment projects;
10. FNP-funded investments must help improve local people's living conditions and foster a virtuous cycle in which (i) LAs deliver better local services; (ii) LAs demonstrate tax compliance; and (iii) local financial governance is improved.

To summarize, the FNP can only contribute to sustaining FDL's resources, its own resources, and resources earmarked for transfer if the entire decentralization finance ecosystem is strengthened.

## Does FDL have the institutional, organization and human capacities to manage the FNP and kick-start the decentralization process?

All the evidence suggests that FDL is well-managed and capable of building momentum, despite the fact that slow progress on regionalization and devolution of powers is hindering the decentralization process. It must now build on its resilience and gain the capacities it needs to manage the FNP alongside funds from new LA support programmes from the World Bank, KfW and other donors.

**In institutional terms**, there is a pressing need to clarify the status of FDL and the FNP, as well as FDL's relationship with other bodies and organizations whose responsibilities partly overlap with its own. These include the Institut National de la Décentralisation et du Développement Local (National Institute for Decentralization and Local Development), the Office National de Concertation sur la Décentralisation (National Office for Consultation on Decentralization), the Observatoire de la Décentralisation et du Développement Local (Decentralization and Local Development Observatory), and the Observatoire de la Décentralisation du Sénat (Senate Decentralization Observatory). In addition, FDL needs to coordinate its work with the Local Development Funds planned for each district. This clarification and consistency work will only be possible if the government commits to making the decisions needed to achieve meaningful decentralization.

**In organizational terms**, FDL requires programming and execution capacity building, including strengthening of the steering committee, a review of its financial planning and workplan, a new performance-based management model, a new investment department, and

a team of staff posted to the regions. These changes should be consolidated into a "new" procedures manual so that tools such as the local governance index can be rolled out across the board.

**On the subject of human resources**, the most pressing shortages are in strategic planning, monitoring, auditing and LA relations roles. FDL should explore new ways of working, with a greater emphasis on cooperation between departments.

## Limitations and outlook

The FNP is an opportunity for FDL to work with more LAs across Madagascar, especially the poorest LAs that, until now, have not always benefited from TFP aid programmes. The fact that the FNP is funded by local revenues is an important step forward because it releases the FNP – and, by extension, FDL – from financial dependency on the government. With more resources at its disposal, FDL will be in a position to support more LAs. It will be up to LAs to improve local governance so that they can deliver sustainable responses to citizens' needs.



## 3.4

## Mali : What does ANICT need to do now, and in the long run, to facilitate access to loans?

ANICT is an EPA created in 2000 to support LAs in Mali. The agency has six core missions: (i) receiving and allocating grants earmarked for LA-led investments; (ii) equalizing grants in accordance with LAs' development status using government-defined criteria; (iii) helping LAs build infrastructure to develop local services; (iv) encouraging LAs to mobilize more of their own financial resources; (v) guaranteeing loans taken out by LAs to fund their investments; and (vi) managing the financial and accounting aspects of the FNACT.

### FRAMEWORK : How feasible is it for ANICT to access lending?

ANICT is a somewhat special case when compared with other members of RIAFCO. On many levels – especially number of financing operations and local links – it deserves its reputation as a star pupil. On other areas, however, it is more akin to a “start-up” LGFI. For example, a large portion of its resources come from TFPs, it is unable to cover all of its own operating costs, and it offers only a limited range of products to its “customers”. Many observers argue that ANICT needs to reinvent itself.

As an “intermediate” LGFI, it stands to reason that the agency should find it relatively straightforward to access lending and the bond market, and that the only obstacle in its way is the fact that it is an EPA – a status that precludes it from undertaking financial transactions on the Abidjan stock market or unilaterally taking out loans. A 2016 organizational audit of ANICT drew similar conclusions,

stressing that “while accessing the capital markets is an achievable ambition for ANICT, it can only do so if it exploits the resources at its disposal to their full potential, including the as-yet unused Dotation de Garantie des Emprunts des Collectivités Territoriales [Local Authority Loan Guarantee Budget – DGECT], and the government’s recent decision to increase the portion of the state budget transferred to LAs from 12% in 2014 to 30% in 2018.” The audit report also highlighted other conditions that ANICT would need to meet to become a financial institution capable of taking out loans on behalf of Mali’s LAs and offering a comprehensive range of financial products in conjunction with other partners. These included setting up fully functioning regional branches, introducing an LA performance assessment system and an M&E system for LA-led investments, and helping LAs use their own revenues and savings to become more solvent.

### A lack of financial intermediaries to take out loans from lending institutions on behalf of solvent LAs

In Mali, domestic and foreign commercial banks have ample liquidity but are reluctant to expand the lending market because government demand for finance allows them to invest the savings they collect from their customers at relatively high interest rates and with very little risk. Meanwhile, development banks (such as the African Development Bank (AfDB) and the West African Development Bank (WADB)) and other international financial institutions channel most of their funding into the private sector and major infrastructure projects. There are some initiatives – such as on-lending from the government to LAs, and non-sovereign loans (i.e. loans not guaranteed by the government) – that raise the prospect of LAs being able to access lending in certain circumstances.

Financial intermediation is founded on two key concepts: **information** and **trust**. These are institutional qualities that need to be developed. In Mali, as in many other countries in sub-Saharan Africa, there is no “market” where LAs can submit funding applications and obtain information about loan terms, and where lenders can assess potential

customers’ needs and capacities. Trust is difficult to build unless information is shared. On this basis, four scenarios were developed to:

- allow LAs to become credible, trustworthy borrowers;
- enable ANICT to develop the capacities to possibly play an intermediation role;
- convince elected officials and authorities that LA borrowing is not a sign of weakness, but rather an indicator of capacity and willingness to act;
- persuade TFPs that the LA finance sector presents an opportunity to identify and implement innovative financial products.

## Four scenarios for accessing lending based on ANICT's current arrangements and status

1. **Activating the loan guarantee system.** ANICT already has a dedicated budget for guaranteeing LA loans, but this system has never been put to use. In 2017, the government earmarked 200 million CFA francs (USD 366,000) for this purpose. Although this amount only covers a small number of guarantees, it should be enough to allow ANICT to run one or two pilots and make its first foray into the lending market. The fact that this has not happened is one of the main barriers to achieving direct access to lending and the capital markets. ANICT's procedures manual imposes certain restrictions on the issuance of guarantees, but these could easily be lifted if LAs demonstrated their intent to seek loans from Mali's commercial banks or agreed to take part in more complex financial transactions. At this stage, ANICT and its partners need to "test the water" to see whether Mali's LAs have any interest in the lending market – a process that requires the agency to take a proactive stance.
2. **Introducing blended loan and grant packages for investments.** This scenario draws on the model adopted by Cameroon's FEICOM, whereby all financial products include a "loan" component of between 10% and 100% of the total amount. This applies to LAs looking to invest in commercial operations where both risk and expected return are greater. ANICT would have little difficulty in introducing similar blended loan and grant packages – guaranteed or otherwise – provided that the loan was taken out solely on the LA's behalf. If a project financing package contained an 80% grant component and a 20% loan portion, part of the grant could quite feasibly be used to guarantee or repay the loan.
3. **Accessing a credit line directly from banks.** This scenario is a variation on the two previous options. In this case, ANICT secures a credit line from a bank or a group of banks, with support from one or more financial institutions, and LAs can then take out loans to fund investment projects in specific sectors. The LA borrows the money directly from the bank – on preferential terms because the transaction is supported by external financial institutions – and ANICT guarantees the loan. Since ANICT does not manage these loans itself, its status as an EPA poses no obstacle. Moreover, it could guarantee the loans using the allocation earmarked for this purpose. In Mali, there is every chance of finding a commercial bank willing to extend a credit line financed by an external partner (in this case, AFD, which has expressed interest in this model). Securing the commitment of external partners is therefore vital. It is also important to ensure that proposed projects are of a sufficiently high standard, given that banks engaged in this type of financing have a propensity to show leniency but tend to rely on loan guarantees.
4. **Accessing innovative finance (climate finance).** ANICT has recently begun working towards GCF accreditation. Given the many hurdles that institutions face to become GCF-accredited, this option is unlikely to produce significant additional resources for many years yet. It is, however, much more likely that a subsidized UNCDF Local Climate Adaptive Living Facility (LoCAL) programme could be implemented in the near term, with the funds passing via ANICT. Such a move would help strengthen ANICT's institutional position, build its organizational capacities, and allow its staff to gain new skills. Like the previous three scenarios, this option does not make ANICT a fully-fledged financial institution capable of accessing the capital markets or taking out loans on its own behalf (or on behalf of LAs). Creating a climate finance allocation – in the same way as activating the loan guarantee system – would mark a major step towards the agency becoming a financial institution, especially as it continued to expand the list of innovative climate finance products available to LAs and local stakeholders.



## Devising an action plan for ANICT and LAs to make these scenarios a reality

Following the February 2017 organizational audit, ANICT launched a series of internal reforms to accelerate its regional deployment and refocus its activities on LA financing. This decision suggests that the agency will retain its status as an EPA for the time being, thereby delaying any efforts to secure a formal credit rating that would allow it to access the bond market and on-lending.

Despite this, the above-mentioned proposals imply that ANICT needs to take certain steps to develop in-house financial capacities. These include :

- creating an internal ANICT working group to ensure the agency complies with the International Financial Reporting Standards (IFRS) and credit rating requirements so that it is eligible to access the capital markets;
- establishing a reliable database of LAs' financial statements and analysing the data to keep track of LAs' financial capacity (especially their borrowing capacity);
- feeding this information to the Commission Nationale des Finances Locales [National Commission for Local Finance – CONAFIL], creating a performance framework for Mali's LAs so they can obtain a credit rating, and

building on the state of financial development in Mali;

- encouraging TFPs to participate in the CONAFIL so they can contribute to strategic thinking and help harmonize LA financing modalities.

## Limitations and outlook

ANICT must maintain its drive to access the lending market. The short-term actions and scenarios outlined above could be seen as vital steps towards allowing the agency to access the bond market. In either case, ANICT's current priority seems to be to consolidate its current mandate rather than to develop a strategy for accessing the capital markets.







## 3.5

## Niger : How can ANFICT sustain its action?

## FRAMEWORK : How can the agency access financial resources amid a climate of insecurity and a shortage of government funds?

ANFICT was founded in 2008 and became operational in 2014. It took over from the Caisse de Prêts aux Collectivités Territoriales [Local Authority Loan Fund – CPCT], which was created in 1970 and ceased operating in 1999. ANFICT's mandate is as follows: (1) to receive and transfer grants to cover LAs' operating costs; (2) to receive and allocate investment grants to LAs; (3) to equalize external and domestic funding; and (4) to manage financial allocations earmarked for LAs.

ANFICT fulfils this mandate by running four funding windows. Two of these windows – the Technical Assistance Window and the Special Window for Building Site Preparation – are not functioning. The other two windows – the Operational Support Window (via the FAD) and the Local Investments Window (via the FP) – are functioning but only received funding in 2014 and 2015 respectively. Aside from these operational challenges, ANFICT suffers from instability at the top of the organization – the director general was replaced in 2016, and then again in May 2017 – and is hampered by the precarious security situation, which makes it difficult to carry out regionalization projects and work closely with LAs.

In 2015-2017, there was a period of reflection and analysis, including an organizational audit, to examine ways to strengthen the agency's managerial capacities and improve its internal structure. Other studies focused on how to set up a sector-specific fund operated via ANFICT, how to mobilize resources stemming from devolved powers, and how to reform technical assistance provision. Some of the proposals on access to innovative (climate) finance and to loans were considered internally within ANFICT.

Amid a climate of great uncertainty and excitement around the proposals, the following decisions were made :

- to rank the proposals by short-term, medium-term and long-term scope;
- to prioritize the proposals that did not require major organizational transformation and could deliver quick returns in terms of bolstering ANFICT's resources and boosting its value and legitimacy.

Three short- and medium-term “scenarios” were then examined, focusing on :

1. ANFICT's core purpose, i.e. **managing transfers and grants** to LAs, by reforming the two funds it manages (FAD and FP);
2. Operationalizing the **Technical Assistance Window**, which is mentioned specifically in ANFICT's constitution and aligns with the secondary aspect of its mandate (LA capacity building);
3. Creating **sector-specific** funds, with ANFICT holding responsibility for transferring relevant portions of these funds directly to LAs.<sup>9</sup>

### How can the FAD and the FP be overhauled as part of deeper reforms of fiscal decentralization in Niger?

Transferring grants from the government (and TFPs) to LAs is a core part of LGFIs' mandate. These investment support grants are awarded using formulas of varying complexity and based on different criteria, such as population, size and needs. In Niger, the FP performs this role. In addition to transferring investment grants, the overwhelming majority of LGFIs – whether formally or informally – also provide LAs with grants to cover their operating costs. In theory, these grants are intended to plug the gap between LAs' costs and the funding they receive from local revenue streams. In Niger, the FAD assumes this role.

Both the FP and the FAD face operational difficulties, as the volume of grants is in decline and replenishment of the funds is unpredictable. As a consequence, TFPs are often unwilling to entrust financial management of their programmes to ANFICT or to channel planned sector-specific funds through the agency. Both funds (FP and FAD) have been unable to allocate grants according to the predefined criteria, as the corresponding formulas were found to be excessively complex and opaque. In addition, disbursement rates have remained below 50%, management costs have soared, and it has proven difficult to document impacts. Both funds require a complete overhaul, as opposed to fine-tuning, to make them more relevant and effective, to maximize

their impact, and to show the government's commitment to maintaining and enhancing its support for ANFICT and for fiscal decentralization more generally. ANFICT and its partners must realize that these two missions form the agency's core mandate in its current format. Restoring the FAD and the FP to full working order must be the starting point for any sustainability strategy.

The proposed action plan includes :

1. **Overhauling the FAD:** (1) reframing its core mandate, i.e. providing operational support to LAs; (2) better considering the needs of LAs and their capacity gaps; (3) substantially increasing the size of government replenishments and making these more predictable; (4) introducing performance criteria into the grant award process; (5) simplifying the fund transfer circuit; (6) systematically supervising and monitoring grants; and (7) introducing a special system for Niamey and the country's biggest urban authorities.
2. **Strengthening the FP:** (1) rethinking the aims and objectives of the fund; (2) overhauling the replenishment method to include revenues from the special electricity tax, the land sale tax (which is already managed by ANFICT), and a portion of local taxes, transferred taxes, and mining duties; (3) adopting a distribution formula that favours poorer LAs; and (4) introducing M&E procedures to assess the fund's impact.

#### How can the funding window be activated to strengthen technical support for LAs?

The success of both the FAD and the FP depends on the ability of LAs, as the principal recipients of support from these funds, to access the resources available to them and to use these resources efficiently. This problem is not unique to Niger, since all LGFIs need to find ways to support the LAs they work with. In fact, this is becoming an increasingly important part of these organizations' mandate, and activating Niger's Technical Assistance Window could well serve as an example to others. The process involves the following steps, building on work already completed so far :

- conducting a baseline analysis of existing technical assistance available from devolved government departments, established LA training centres, and TFP programmes and support schemes;
- assessing the institutional framework and the existing LA technical assistance system, as well as the LGFI's role and actions available to it;
- incorporating technical assistance into a broader institutional, organization and human capacity-building programme for LAs;

- assessing LAs' capacity needs and gaps in line with the duties and responsibilities that are to be entrusted to them;
- setting up a financing mechanism with resources coming from multiple sources, including a direct government contribution, along with a resource pooling arrangement;
- allocating funding in multiple envelopes based on the nature of the action, the level of pooling and its geographical scope;
- forging partnerships with service providers, LA umbrella organizations, and training and education centres (national and international);
- keeping funding circuits short, with direct payments to LAs' accounts;
- embedding technical assistance financing in the LGFI's regional branches;
- introducing thorough M&E mechanisms.

#### How can ANFICT claim its place in sector-specific fund management?

Sector-specific funds might be described at the "financial arm" of the sectoral policies that exist in many countries. These policies map out the government's long-term vision for a given sector (such as education, health, vocational training or food security), along with a strategy and an action plan that TFPs agree to incorporate into their activities and funding. These sectoral policies typically hinge on medium-term expenditure frameworks and financing agreements with donors (and, increasingly, with private sector partners) to set up sector-specific funds.

Since LAs generally play an active role in implementing many areas of national policy (as part of their devolved powers), it is quite right to question how they might be included in these sectoral policies. The challenge is to "localize" sector-specific policies led by central government ministries. Mali's Programme Sectoriel d'Appui à l'Éducation et à la Formation (Education and Training Sector Support Programme) provides a clear demonstration of this process in action. Although the Ministère de l'Éducation Nationale (Ministry for National Education) "has shown leadership on supporting the decentralization movement", difficulties remain (limited capacities among LAs, shortage of resources and monitoring mechanisms, etc.) and "centralized responses are stretched to the limit" (p.65, Sector Program for Support to Education and Training). One way to address this issue might be to have a single financial intermediary capable of effectively transferring and overseeing funding for the education sector's integrated financial framework.

ANFICT could be asked to act as the financial intermediary – at the very least for funding actions that fall within LAs' powers. There is nothing in the agency's constitution that precludes it from playing this role. The question, instead, is whether there is

any benefit in having government ministries and TFPs involved in managing programmes and sector-specific funds channelling resources earmarked for LAs through ANFICT, or whether they would be better served using a sector-specific financing mechanism to allocate funding to authorities.

This is a major challenge, given the sheer scale of funding allocated to devolved powers in the education sector. The Ministère de l'Enseignement Primaire (Ministry of Primary Education) alone transfers 87% of its budget to LAs. However, ANFICT's experience in managing targeted funds from TFPs is limited to a single pilot project for the Programme d'Appui au Développement Economique Local [Programme to Support Local Economic Development – PADEL]. ANFICT will therefore be unable to consider managing sector-specific funds until the first wave of institutional reforms has begun – when a new decentralization and equalization support system is in place and the Technical Assistance Window has been activated.

### Devising an action plan that emphasizes short-term and far-reaching cross-cutting actions

The proposed cross-cutting actions include:

- gathering information and data about the state of fiscal and financial decentralization in Niger, and in particular about LAs' resources;
- exploring potential sources of equalization funding by examining revenues that could be put towards the FP (combined business tax,

mining duties and audiovisual taxes);

- analysing how the grants awarded in the two years that the FAD and the FP have been in operation have been executed, and what their impact has been;
- establishing an LA performance assessment system;
- considering the nature, opportunities and aims of an equalization process in Niger;
- analysing LAs' capacity-building needs and gaps;
- improving existing estimates of the cost of devolving powers in education, health and water supply.

## Limitations and outlooks

ANFICT has limited leeway because of its strained relationship with the government, the consequences of which can clearly be seen in its relations with TFPs and the limited possibility for sweeping reform. Unless the government renews its financial commitment to ANFICT and LAs, it seems unlikely that the agency will be able to shore up its position in the LA finance system in any meaningful way, or that it can expect to gain access to new sources of finance (including climate finance and the lending market). As such, TFPs play a crucial role.



# 04

4.1	Is it appropriate for LGFIs to access climate funds?	37
4.2	What value do LGFIs bring to the sector-specific transfers system?	38
4.3	Can equalization help diversify LGFI's resource?	38
4.4	How mature is the local authorities lending ecosystem?	39
4.5	What alternative sources of finance are available to LGFIs ?	40
4.6	What lessons can be learned about the rule of TFPs ?	41



## 04

## Diversifying LGFIs' resources: Lessons learned from the case studies

### 4.1 | Is it appropriate for LGFIs to access climate funds?

There are two reasons why it is appropriate for LGFIs to access climate funds. First, as seen in the example of Cameroon, LAs' legally devolved powers mean they play a vital role in taking local climate action. Second, they need a financial intermediary with experience in working with LAs to enable them to access these environmental funds, because they are not strong enough to do so alone. For LGFIs, especially those that are yet to prove their worth, accessing climate funds is a chance to confirm their position and demonstrate the value they add in terms of **(i) mobilizing resources; and (ii) supporting LAs.**

Although LGFIs could access any number of funds, the example of Cameroon shows that multilateral funds – especially the GCF – offer the most worthwhile opportunities. In order to access the fund, LGFIs need to gain accreditation by satisfying the GCF's standards – a process that requires them to have a management system and practices that meet international standards. Moreover, they need to be able to work with LAs to develop climate change programmes, and bring in specialized technical partners to ensure LAs receive the support they require. As well as ensuring their management practices are above board, LGFIs that choose to embark on this process also need to have an in-house unit dedicated to gaining accreditation and **adapt their financial tools.**

Before submitting their application for accreditation, LGFIs will first need to carry out an internal institutional audit to identify where their strengths lie and where they need to improve if they are to meet the GCF's requirements. The

audit will: (i) show whether the LGFI is genuinely equipped to pursue the accreditation process; and (ii) allow it to draw up an action plan, if required, and set out the resources it will need to succeed. An audit of this type should also take an honest look at the LGFI's absorption capacity. The aim is not simply to set out a new road map, but also to determine whether existing staff have the capacity to implement it. The studies showed that while some of the LGFIs are proficient at setting goals and making formal commitments, they are much less adept at implementing them.

LGFIs wishing to access environmental funds and other resources will need to develop their **resource mobilization function.** None of the four LGFIs studied has such a function, other than collecting taxes (Cameroon) and signing grant agreements with conventional partners (European Union (EU), KfW and AFD). Yet it is vital for LGFIs to mobilize other types of resources and gain the financial engineering capacities they need to develop projects on behalf of LAs. **This is a new area of expertise that LGFIs need to develop in-house,** via thorough feasibility studies that take account of LAs' genuine absorption and financial capacities. The fact that LAs lack credibility remains one of the main barriers to mobilizing new resources on their behalf.

## 4.2 | What value do LGFIs bring to the sector-specific transfers system?

Do LGFIs offer any proven value to donor organizations (TFPs, investment funds, international funds and sector-specific mechanisms) when it comes to managing sector-specific financing?

In theory, yes. However, in practice, the benefits they bring far from outweigh the disadvantages. In Mali, while the Appuis Budgétaires Sectoriels [Sectoral Budget Support – ABS] transfer system for education and health appears to operate smoothly, sector managers decry the fact that LAs give them no feedback about how the funds are used. Recent experience in Niger has (as yet) failed to persuade donors that LGFIs offer any genuine added value, and national sector-specific fund managers remain equally unconvinced (although there may well be a trial in the education sector). There are reports that Nigeriens Nourish Nigeriens (3N) Initiative programmes intend to use ANFICT's funding channels. For TFPs involved in funding sector-specific policies, **working with an LGFI may be beneficial, provided that there is already an entity in place to manage programmes at the local level**, and that the transfer mechanism bypasses Treasury bureaucracy.

The alternative – a regional LGFI branch responsible for distributing and managing sector-specific grants locally – raises potentially serious fiduciary risks. Yet work on Niger's Fonds Commun Éducation [Common Education Fund – FCE] has demonstrated the benefits of channelling funds via

ANFICT with precise allocation rules. If this experiment goes ahead, it could serve as a case study for others to follow. Donors are also discouraged by the fact that LGFIs and their regional branches play no part in project M&E.

In short, an LGFI could bring genuine value to the sector-specific transfer system in the following areas:

- making the fund disbursement process quicker and easier;
- making fund allocation decisions locally, with input from the relevant stakeholders;
- making it possible to monitor how funds are used and feed back information;
- reducing transaction costs.

If an LGFI can do all the things listed above, it will offer genuine added value when compared with direct transfers from the Treasury to LAs.

## 4.3 | Can equalization help diversify LGFIs' resources?

Equalization systems are attractive funding sources for LGFIs and, by extension, for LAs. For the purpose of this analysis, equalization refers to the model that Madagascar is currently deploying through the FNP, rather than the many other funds and allocations that use the title "equalization" because funding is awarded to LAs based on their resources, needs and individual conditions. Using the term "equalization" to describe such arrangements is inappropriate – or, at best, stretching the meaning of the word – because grants coming from these funds (such as Niger's FNP) or budgets (such as Cameroon's investment budget)<sup>10</sup> do not specifically target the poorest and most disadvantaged LAs, thereby further widening the inequality gap. Moreover, most of the funding comes from the government and TFPs rather than from LAs' own tax revenues.

Madagascar's FNP is specifically designed to narrow the inequality gap between LAs by helping those authorities with the smallest tax bases to invest in improving service standards and, by extension, reducing the effect of resource disparity. But what makes the FNP particularly appealing is the way in which it is replenished (10-20% of the combined business tax,

the hydrocarbon duty and mining rebates, as well as 100% of the audiovisual advertising and broadcast competitions taxes).

The fact that it is hard to calculate and collect this revenue, and that the amounts are meagre, is not especially important at this stage. What matters more is that these resources exist, and that they are collected through established procedures. Given that most of these revenues exist only on paper, anchoring them in reality, while not guaranteeing resource sustainability, would at least be a mark of progress.

The I&D study into Madagascar's FDL found that, under the chosen collection scenario, the FNP would have an estimated USD 1-2.1 million in resources each year. This figure may seem low, especially for a country that has 1,500 LAs. However, the money is not earmarked for all LAs, but only the poorest with the lowest service standards.

Since the funds come from taxes and duties that are normally available to all LAs, Madagascar's FNP plays a major role in fostering cohesion and solidarity between municipalities.

## 4.4 | How mature is the Local Authorities lending ecosystem?

### New sources of financing for LAs

Being able to access the lending market opens up new financing opportunities for LAs. Yet it is difficult to map the lending market because it is a complex ecosystem with many overlapping components.

**A new ecosystem.** Lending is a somewhat rare occurrence in the four countries studied, limited to a handful of bank loans in Niger and Mali (fewer than six documented examples in total). In every case, the loans were taken out by relatively large LAs (Maradi, Bamako) from commercial banks. In Niger, lending was once a popular source of finance, but the CPCT that was set up in 1970 closed in 1999 when LAs failed to repay their loans. Other than borrowing from commercial banks, Douala city council has previously secured lending from the capital markets and Dakar city council did the same in 2014.

#### Actors are in place but finding it difficult to connect.

Once the terms of reference had been adjusted to better reflect the LGFIs' needs, it was agreed that the study on Mali's ANICT – categorized as "intermediate" on the maturity scale – would look at access to lending. Although the Niger and Madagascar studies also looked at lending, it is clear that the priorities of both LGFIs and LAs in these

two countries lie elsewhere. In Cameroon, meanwhile, FEICOM has been exploring the issue of lending for several years already. Returning to Mali, a wide-ranging analysis of the financial sector found that many components of a lending ecosystem were already in place (see appendix 5): (1) accredited institutions willing to finance LA initiatives under the right conditions; (2) LAs willing to take out loans; (3) genuine opportunities in terms of modalities; and (4) intermediaries that could connect borrowers with lenders.

There can be no doubt that the biggest challenge in Mali (and in other RIAFCO member countries) lies with **the issue of financial intermediaries**. Mali's banks remain extremely risk-averse and LGFIs are not robust enough to consider playing this role.

### Should LGFIs play a dual role as both grant aggregators and financial intermediaries?

It is not necessarily a natural, or even desirable, step for an LGFI to progress from aggregating grants from domestic and international sources, to becoming a fully-fledged financial intermediary with access to the bond market and blended finance (from TFPs, for example). The two roles are very different – not just in terms of financial volumes, experience, workforce size or organizational research. In fact, they are entirely separate functions with their own underlying missions, distinct modalities and different, often opposing, cultures.

It is therefore important to consider whether it is a good idea to merge these two roles within a single institution – i.e. distributing funding from the government and TFPs to LAs and monitoring how these funds are used, while at the same time accessing the bond market directly, either on its own behalf or on behalf of LAs, and managing funds transferred by the government or external sources.

## Is there already a lending market in West Africa and, if so, how can it be developed?

According to a report commissioned by the West African Economic and Monetary Union (WAEMU), the total 10-year borrowing capacity of all LAs (1,068 LAs across all categories combined) in the WAEMU area in 2013 stood at 356.55 billion CFA francs (approximately USD 670 million).<sup>11</sup> This figure is the amount of solvent debt demand calculated as half of net local savings, yet capacity to access the capital markets is severely limited because the requirements for doing so are stricter. The same study estimated that only 73 LAs across the WAEMU area, representing 31.5 billion CFA francs (approximately USD 60 million) – or 10% of total local debt capacity – were in a position to access the markets.<sup>12</sup>

Looking specifically at Mali, the report estimates that, collectively, the 11 eligible LAs would have a 10-year borrowing capacity of 2.56 billion CFA francs, or 23.3 million CFA francs (USD 45,000) per LA per year. Even if Mali's 11 LAs managed to adopt a common position, there is no guarantee that a consortium of borrowers with a combined capacity of 2.5 billion CFA francs would be able to access the capital markets, as it might be deemed too small.

Capital market borrowing capacity is calculated as 10% of an institution's debt capacity, which itself is determined as half of total net savings. On that basis, Mali's LAs have a long way to go before they can bring their capital market borrowing capacity

up to the required level. And even if they manage to achieve this, LAs will only be able to exercise this capacity if:

- they are among the top-performing and best-placed authorities;
- they benefit from wide-ranging capacity-building efforts;
- there is a satisfactory intermediation process that connects supply and demand;
- loans are part and parcel of blended finance arrangements including a variety of instruments (grants, loans and donations) from a multitude of sources (banks and multilateral institutions, philanthropic organizations, diaspora, etc.);
- the finance packages include major catalytic elements.

## 4.5 | What alternative sources of finance are available to LGFIs?

It is important to distinguish between resources destined for LAs that pass through LGFIs, and resources intended to fund LGFIs directly as administrative entities. These two types of resources are closely entwined because much of the operating resources that LGFIs receive come from the products that they offer to LAs.

The funds available to LGFIs come from various sources that can be categorized as follows:

- **statutory government grants** to cover LGFIs' operating costs (various types of government grant that LGFIs receive for subsequent redistribution to LAs);
- **grants and donations (in cash or expertise) from TFPs** for specific programmes or to cover the LGFI's general operating costs;
- resources from **LAs**, either as equalization deductions or contributions linked to specific projects;
- **agency fees** that LGFIs charge to manage:
  - funds assigned to the LGFI by the government and/or TFPs for subsequent redistribution to LAs;
  - sector-specific funds and/or climate and innovative funds;
  - LA capacity-building programmes;
- revenues from **financial products managed by LGFIs** or in which they are involved (deposit interest, LA financing, loan guarantees, etc.).

11

WAEMU Council of Local Authorities (CCT), Summary of the first report entitled *Appui à la Commission de l'UEMOA en vue de la réalisation d'une étude sur les mécanismes de financement et dispositifs communautaires de financement des collectivités territoriales de l'espace UEMOA* [Support for the WAEMU Commission with a view to conducting a study into financing mechanisms and community financing systems in the WAEMU area], Ouagadougou, WAEMU CCT, July 2013. The final, complete report was not available for consultation.

12

Because it was not possible to view the complete report of the study into setting up a regional finance system, it is hard to say whether this figure relates to individual LAs' borrowing capacities, or capacities aggregated through LGFIs (or even through a regional LGFI). However, the fact that the situation is so disparate suggests that aggregation would be extremely difficult to achieve and would do little to improve LAs' collective borrowing capacity. In fact, it might even be argued that aggregation would reduce their borrowing capacity.



RIAFCO-member LGFIs already receive funds in these categories from various sources, but could explore other avenues of funding in addition to the proposals set out in this report:

- revenues from services provided to LAs (insurance, pooled procurement, building maintenance, plant hire, etc.);
- fees for consulting or professional services (databases, project M&E, credit rating, etc.);
- resources from financial activities falling within the final category listed above (access to the capital and bond markets, pooled financing, loans, etc.).

## 4.6 | What lessons can be learned about the role of TFPs?

Whether or not an LGFI is able to develop often depends on the role that TFPs play, especially where government funds fall short of LAs' needs. A large proportion of the funds that LAs receive (both directly and via sector-specific programmes) comes from external sources, and this funding – in terms of both TFPs' vision and programme modalities – can be decisive in determining the trajectory of the decentralization process.

Some partners choose to ignore official decentralization procedures and instruments and instead apply their own modalities. There are plenty of examples of such arrangements in sector-specific programmes, many of which are implemented with scant regard for devolved powers or simply bypass LAs altogether, on the grounds that they have limited institutional capacities and partners are seeking quick outcomes (to address the population's urgent needs or to ensure funds are disbursed rapidly). Yet this attitude fails to take account of decades-long experience where many short-term strategies such as these have ended in failure, especially when it comes to how funded investments operate. Other TFPs, while broadly supporting the decentralization process, fail to embed this approach in their sector-specific technical departments, which often deploy opposing strategies and/or prioritize community-based strategies.

**This diversity of strategies and modalities has done little to support decentralization,** especially since the governments in question have been relatively weak, the underlying processes have tended to suffer from a lack of – or even competing – political leadership, and there has been no structured, integrated vision of government reform.

Almost all countries have a TFP dialogue framework, as well sector-specific dialogue arrangements between national stakeholders and TFPs. While the TFP discussion fora provide an opportunity for partners to share information, the sector-specific dialogue frameworks have delivered mixed results over time and across countries, and LGFIs have neither claimed nor secured a meaningful role in these processes.

**Despite this, most TFPs demonstrate an interest in LGFIs and are increasingly relying on them.** The EU, for example, played a pivotal role in launching Mali's ANICT, while LGFIs play an important part in implementing AFD-led programmes, which in turn routinely include LGFI capacity-building activities. In all four of the countries covered in this study, UNCDF has launched pilot programmes that rely on LGFIs and include a performance incentive component (the LoCAL programme is currently assisting ANICT with the GCF accreditation process). Moreover, UNCDF has introduced mechanisms to transfer funds to LAs in many countries in the sub-region. A study by Dege Consulting<sup>13</sup> looking at 10 countries (including Mali, Benin and Guinea) shows how cooperation between UNCDF and the World Bank has significantly improved LA fund transfer systems, due in no small part to the introduction of performance mechanisms. KfW, meanwhile, is providing financial and institutional capacity-building support to Benin's Secrétariat Permanent de la Commission Nationale des Finances Locales [Permanent Secretariat of the National Commission for Local Finance – SP-CONAFIL]. This long-term technical assistance has helped the country launch an LA audit system, building on the national inspection arrangements already in place at the Ministry of Finance and the Ministry of Local Government. In Madagascar, meanwhile, the World Bank and the EU have demonstrated their commitment to supporting LGFIs by pledging funding for FDL, although the country's political crisis and a lack of will from the government means that this support is yet to

materialize.

Those TFPs that choose to assist LGFIs need to weigh up an important risk, namely how the interventions are targeted by sector and geography. While sector targeting does not pose any specific problems, poor geographical targeting may mean that some LAs have better access to finance than others. This is particularly true in Mali, where there are geographical disparities in LAs' access to finance because of uneven targeting. As a consequence, those LAs that do best out of this system obtain as much as 10 times as much funding as their less fortunate counterparts. As well as its key role in setting up ANICT, the EU – by choosing not to allocate funds to certain LAs – has helped to redress the imbalance caused by uneven targeting by other donors and, even more so, by government underfunding. The EU has also revised its funding modalities, introducing targeted budget support conditional on attaining sector-specific indicators. While this arrangement bodes well for the future, it can only work if (i) indicators are chosen carefully; (ii) there is genuine sector dialogue; and (iii) the government shows a genuine willingness to support the decentralization process.

Aside from the reluctance outlined earlier in this section, TFPs' role in supporting LGFIs can be summarized as follows:

- major TFPs are willing to work with LGFIs, provided that processes are in place to reach a large number of LAs in a short time frame without adopting a project-based approach;
- TFPs rightfully expect the government to provide the bulk of support to LGFIs, and LGFIs must ensure that their various financing modalities are traceable, that they can be held to account for how they use and manage the funds at their disposal, and that transaction costs are kept to a minimum;
- the main barriers to TFPs stepping up their support lie in the fact that LGFIs are institutionally weak, and in a lack of government leadership;
- unless the situation changes, there is a real possibility that TFPs will withdraw their support for LGFIs that are unable to change or prove their worth.

**A strong, well-managed LGFI can expect to receive support from TFPs.** For this reason, sector-specific dialogue fora are a particularly effective way for TFPs and national stakeholders to develop a shared vision of what the future of LGFIs will look like, and how they will access the support they need. The management standards that TFPs expect LGFIs to meet are non-negotiable, because only agencies meeting these requirements will be in a position to improve



# 05

5.1	Key priorities for RIAFCO-member LGFIs	44
5.2	How RIAFCO could support its members' efforts	48

## 05

# Conclusion : What can RIAFCO do to help strengthen its member LGFIs?

their performance.

This section looks at how RIAFCO can strengthen LGFIs, given the challenges outlined earlier in this report.

## 5.1 | Key priorities for RIAFCO-member LGFIs

### A. Analysing and strengthening institutional capacities : a vital, ongoing process

**Capacity building is a permanent challenge for all institutions.** Yet in many cases – including for LGFIs – this issue is considered solely from the perspective of training. If capacity building is to have a meaningful impact, it must draw on a detailed analysis of an entity's institutional capacities, covering aspects such as the environment in which it operates, how responsibilities are shared within the sector or field in question, how this affects relations between institutions, what the law says, what the entity's internal organizational, management and working procedures are, how human resources are managed, and how skilled its staff are.

**LGFIs must assess their own capacities on an ongoing basis.** They must therefore take a serious look at their internal capacities, properly resource their capacity-building action plans, and constantly monitor changes in their capacity over time. LGFIs should assess their capacities against their own objectives, based on their individual mandate. This analysis is not the same as an organizational or institutional audit.

There are various ways to go about this. Whichever method is chosen, the LGFI must build positive internal momentum around doing things “better” and more efficiently. Benchmarking is a particularly useful exercise because it is anchored in real-life practices. Moreover, an analysis of this type is an opportunity to come to a shared assessment of the situation and to draw up a list of potential options and solutions.

**Most of an institution's capacity gaps can be addressed by simple measures** that seek to strengthen management practices, boost individual accountability, improve internal information flows, restructure the organization chart, and break down silos between departments. **Effective change management is a vital part of any process of this type.** Of course, LGFIs may face structural barriers such as their legal status (e.g. an EPA), the fact that they cannot expand

their own funds, or a lack of flexibility on HR aspects because they remain bound by civil service management rules. Yet even with these restrictions, and a shortage of resources, LGFIs can still adapt their management practices in a way that drives improvement (as demonstrated by Madagascar's FDL).

## B. Strengthening cross-cutting and strategic functions

Insights into the LGFIs covered by this study, as well as other LGFIs, show that strengthening efforts should focus on the following key functions:

1. cross-cutting LGFI administration and management functions;
2. subject-matter expert functions.

### Cross-cutting LGFI administration and management functions

Strengthening efforts should focus on two vital functions, among others: financial resource management and human resource management. (NB: these functions are discussed in greater detail than the subject-matter expert functions because they are essential prerequisites.)

The budget, accounting and financial function. An institution cannot hope to access the capital markets and multilateral funds unless it has an accounting and financial system capable of producing reliable financial information. By virtue of their status, most LGFIs are required to follow national public accounting rules, while their accounting procedures are limited to authorization, commitment, clearance and payment processes. Their Director General is the authorizing officer, while a Treasury official acts as the public accountant and paymaster. This system makes no provision for accrual-based accounting, third-party situation monitoring or cost accounting, and cannot produce financial statements that are detailed enough to give a clear picture of the institution's economic and financial reality. Nevertheless, LGFIs are able to set up finance departments or divisions that are responsible for producing the authorizing officer's accounts and, as such, can keep parallel records that are more robust and comply with international standards. Such a system involves double-entry book-keeping in certain areas, as well as cost accounting, an internal control system, and systematic external audits of the institution's accounts. As things stand, however, very few LGFIs have adopted the essential tools they need to produce reliable financial information.

The Organisation pour l'Harmonisation en Afrique du Droit des Affaires [Organization for the Harmonization of Business Law in Africa – OHADA] is currently working on changes to the public and private accounting system, with a view to harmonizing accounting principles and standards and complying with IFRS, introduced by the International Accounting Standards Board (IASB) in 2005. IFRS is a set of harmonized accounting standards intended to enable organizations to produce reliable financial information for potential investors, lenders and other creditors, who increasingly require more robust information to enable them to meet their own reporting requirements. As financial institutions, LGFIs must make sure they comply with these international standards as a matter of priority.

For LGFIs, reviewing their budget, accounting and financial systems should therefore be a key component of their capacity-building plan, focusing on procedures, information flows, accounting procedures and qualified staffing arrangements. The first step is to set up an accounting system that is partly dual-linked to a cost accounting system, making it possible to run a cost analysis by function and by programme. The next measure is to have an internal audit function, allowing the LGFI's senior management and board to remedy problems as they arise and to make the entity's financial statements more reliable and transparent.

### An example of best practice

FEICOM has embarked upon this process by pursuing ISO 9001 (quality management system) certification. In addition, the agency has completed training, backed by Cameroon's Ministry of the Economy and Finance, on how to obtain a credit rating from international rating agencies in line with international accounting standards.



**The HR management (HRM) function.** For all of the LGFIs studied, the HRM function was either practically non-existent or in its infancy. In most cases, LGFIs limited themselves solely to staff administration. Staff are often ineffective and inefficient because they are not properly trained and qualified, either because they suffer from a shortage of expertise that needs time to develop, or because staff are appointed to roles where they do not have the basic knowledge they need to fulfil their duties. Moreover, LGFIs are hampered by restrictive civil service management rules and the lack of a performance-based system. As such, senior management stands at an impasse – the LGFI has a clearly defined direction, goals and action plan, but lacks the human resources it needs to put these into action. This situation directly affects the LGFI's absorption capacity whenever new programmes arrive on the scene. Moreover, LGFIs' HR capacity has a direct impact on their credibility.

**LGFIs therefore need to improve their HR management capacities.** Unless they do so, any attempts to become a more reliable and credible institution will inevitably end in failure. In addition, LGFIs must bear the costs of their

unproductive staff – a situation that drives up LA transfer transaction costs and further undermines the agency's legitimacy.

The first step in this process is for LGFIs to consider their mandate and redefine the subject areas they cover, to rewrite staff job descriptions accordingly (including the requirements for each post), to determine how many staff they require and decide what changes need to be made, and to produce a HRM manual and tools (including a strategic jobs and skills planning framework). Once this work is complete, the next step is to assess existing staff arrangements and produce a staff reassignment/redeployment plan, a training plan, and a recruitment and onboarding plan.

## Subject-matter expert functions

LGFIs should focus on strengthening their capacities in several subject-matter expert functions – many of which they are poorly equipped to carry out, including several that, for some agencies, are new areas of expertise. In particular, LGFIs should focus on the following (non-exhaustive) list of functions.

**The financial resource mobilization function.** RIAFCO-member LGFIs do not have human resources dedicated specifically to this function. The work they perform in this area is limited to collecting tax and duty revenues to cover their operating costs, and engaging with conventional official development assistance (ODA) donors. There are few examples of initiatives to mobilize new sources of finance.

LGFIs should invest in training managers so they are able to: (i) identify potential funding sources and determine how to access them; (ii) prepare the associated funding applications; and (iii) negotiate access to these sources (building advocacy capacities). This is particularly true for LGFIs that wish to access environmental funds, as outlined above.

This is especially important for LGFIs that intend to become fully-fledged financial institutions and offer a broader range of financial products to LAs. Accessing these "new" resources is often presented as a solution to shortfalls in traditional funding sources (local resource mobilization and, to a lesser extent, intergovernmental transfers). An LA's solvency depends on its savings capacity which, in turn, hinges on its ability to generate revenues from its tax base.

**The financial engineering function.** LGFIs are well-versed in managing grants from the government and its partners. They are extremely unlikely to face questions about the profitability of their projects, the recurring costs they

generate and how these are covered, or the nature of the financing packages they use. Other than FEICOM, none of the RIAFCO-member LGFIs use blended grant and loan instruments or guarantee mechanisms.

In other words, financial engineering is an area that LGFIs need to develop or, in some cases, start from scratch, so they can: (i) help LAs put together project funding applications; and (ii) adapt their own instruments. By strengthening their financial engineering capacities, LGFIs will be better placed to analyse LAs' financial statements. This, in turn, will serve two purposes: (i) helping LAs conduct their own analyses, including an analysis of their borrowing capacity; and (ii) enabling LGFIs to scrutinize LAs' requests critically by examining their financial statements (which, in many countries, tend to be unreliable) so they can determine whether the figures are consistent and put together appropriate financing packages. Financial engineering also involves assessing fiduciary risks.

LGFIs need to have managers who specialize in financial analysis, including in regional branches, so they can better assess and support LAs.

**The project management support function.** There is debate as to whether LGFIs should provide LAs with support in areas such as project management. One line of argument is that this task should fall to LA technical assistance programmes, where they exist. Many LGFIs feel that their role is limited to allocating funds and, in some

cases, checking that these funds are used properly. However, without wishing to ride roughshod over LAs' ability to project-manage their own investments, there is an argument for LGFIs having the powers and resources to ensure that the funds they allocate are used for high-quality, properly functioning purposes. While LGFIs cannot replace existing inspection mechanisms, regular site visits will allow them to plan ahead in case one of the project stakeholders (contractor or inspection firm) fails to fulfil its duties, to report back to the project manager, and to talk to other parties about possible

changes to working practices. LGFIs' regional delegations could receive additional training for this purpose.<sup>14</sup>

## Relevant examples where LGFIs have supported LAs :

- FEICOM's experience in helping to design LA capacity-building plans;
- FEICOM's LORA indicator for analysing LAs' finances;
- FDI's experience in providing project management support;
- SP-CONAFIL's experience in working with government programmes to assess LAs' performance via the Fonds d'Appui au Développement des Communes [Local Development Support Fund – FADeC];
- the local governance index in Madagascar;
- the horizontal equalization fund in Madagascar.

## Summary

These key cross-cutting and subject-specific functions could form the basis of LGFI capacity-building efforts. Ongoing training programmes could be devised for multiple LGFIs, featuring a blend of theoretical training on specific areas (combining distance learning and in-person training in a RIAFCO member country), practical study visits to allow LGFIs to share experiences, and ongoing in situ support from specialists to build on the programme's content and help LGFIs develop the necessary expertise.

Institutional capacity assessments remain vital exercises, because they provide a detailed view of training needs, plus additional capacity-building requirements.

## 5.2 | How RIAFCO could support its members' efforts

As it prepares to draw up its new action plan for 2019, RIAFCO could explore various avenues in line with its three core missions – fostering peer-to-peer exchange, building its members' capacities, and advocating for the cause of LGFIs.

### A. Helping LGFIs demonstrate the value they add to the LA funding system and enhancing their credibility

The purpose of LGFIs is to address gaps in national LA funding systems and to deliver services to ensure that resources are properly managed. They are also expected to help mobilize more resources on LAs' behalf.

**LGFIs therefore have a duty to demonstrate the value they add to the LA funding system and show that their transaction costs do not negate the benefits.** National finance ministries and LA programme co-financing partners will only be prepared to use the services of an LGFI if it can prove its worth, and if both LGFIs and LAs are able to demonstrate their absorption capacities.

It is especially important for LGFIs to prove their value at a time when governments have shrinking budgets and are encouraging public and parapublic entities to mobilize resources from other sources. Meanwhile, partners and multilateral mechanisms are seeking reliable entities through which to channel resources to LAs and ensure these funds are used properly. In other words, an LGFI will have meagre long-term prospects unless it is able to add genuine value to the LA grant receipt and distribution process.

**RIAFCO could give individual LGFIs targeted support to help them identify ways to demonstrate their value.** It could do so by conducting appropriate advocacy, strengthening LGFIs' credibility (especially on fiduciary management), and helping LGFIs overhaul their accounting and finance systems to make them IFRS-compliant. In addition, RIAFCO could help LGFIs pursue certification and – for its more mature members – obtain official credit ratings with a view to accessing the capital markets. RIAFCO could also work with member LGFIs to develop new financial instruments, provide information about possible sources of finance and how to access them, and help them set up local finance databases to inform political dialogue around LA funding. The network could advise its members about their role in the decentralization process and, in doing so, help improve coordination between stakeholders in this process. RIAFCO could encourage LGFIs to exchange ideas and experiences

on their role in supporting LAs and share lessons from their specific contexts. Another way to demonstrate LGFIs' value is to include LA performance criteria in the funding allocation process. RIAFCO could help LGFIs develop a model that draws on the experience of its members that are most active on this front.

To this end, the network could :

- develop a thematic digital resource library available to all LGFIs;
- develop a suite of tools and guides tailored to LGFIs' needs (tools that have proven effective elsewhere or could serve as the basis for further work);
- develop a database of experts (organizations or individuals) with experience in these areas;
- encourage LGFIs to engage in peer-to-peer exchange.

Putting together resource and expertise databases will prove relatively inexpensive and straightforward for the RIAFCO secretariat, provided that it receives support from member LGFIs and technical partners. The peer-to-peer exchange process, meanwhile, will demand effort from member LGFIs and, quite possibly, additional financial support from their partners.

## B. Establishing an LGFI performance monitoring system

RIAFCO should **devise and implement an LGFI performance monitoring system** to track how LGFIs perform against expectations in exercising their functions. This system, which should take account of differences between countries, would be lightweight in design and would foster dialogue with and among LGFIs.

The system would feature a series of indicators, such as :

- how much funding passes through each LGFI, disaggregated by area and sector, comparing this with LA funding from other sources that bypass the LGFI;
- how long it takes for the LGFI to disburse funding, and how the funding is used;
- the transaction cost generated by the LGFI;

- the LGFI's fund mobilization capacity;
- how reliable the LGFI's (audited) financial statements are.

RIAFCO would be responsible for gathering and quantitatively analysing the data. The results could be used to stimulate discussion and drive improvement among LGFIs. The network could kick-start this process by holding a workshop for LGFIs to discuss the performance criteria.

The network could, at a later date, take this process a step further by analysing how LGFI performance affects beneficiary LA performance and introducing functioning LA performance assessment systems.

## C. Introducing LGFI capacity-building support

Although institutional capacity building is a vital process, some LGFIs are doing more on this front than others. It would be beneficial to **streamline the institutional assessment and capacity-building exercise and deploy it universally across all LGFIs**. This, in turn, would allow LGFIs to develop long-term capacity-building plans as part of a systemic analysis process.

To this end, RIAFCO could :

- hold a discussion workshop where LGFIs would draw up a list of key functions;
- identify and recommend suitable institutional capacity assessment methods and tools;

- help LGFIs draw up and implement capacity-building plans (identifying key areas of expertise, sharing best practice, fostering discussion between LGFIs, etc.);
- help develop ongoing training programmes for the key and/or new functions that an LGFI requires, drawing on the findings of the capacity assessment exercise.

The cost of this process will depend on the needs identified in LGFIs' capacity-building plans.

UNCDF © Eloise Pelaud



## D. Advocating for the cause of member LGFIs

RIAFCO should: (i) determine which areas its advocacy strategy should cover; and (ii) decide who the targets of its advocacy will be.

In line with its mandate of supporting African LGFIs, RIAFCO's advocacy strategy should focus on the key theme of this report: **demonstrating the purpose and value that LGFIs bring to financing local development.** The network could also undertake more general advocacy about the importance of sustainable decentralization finance mechanisms and the need to improve sector-specific transfers so that LAs have the resources to exercise their powers. If RIAFCO's message is to be effective, it will need to draw on reliable, aggregated data. It is therefore vitally important that the network has a database containing information provided by its members (as proposed earlier in this section).

The first target of this advocacy work should be ministries of decentralization and local government, for example through the Conférence Africaine de la Décentralisation et du Développement Local [African Conference on Decentralization and Local Development – CADEL], as well as TFPs and financial and other

organizations engaged in the development finance sector. As a matter of priority, the network should look to communicate its message at international events on development finance and the role of LAs in development (organized by global LA networks or international organizations).

At the same time, RIAFCO could play an important part in helping member LGFIs develop national advocacy strategies, if they so request. As an international network capable of identifying and promoting best practice among its members, RIAFCO would be well positioned to help LGFIs develop their strategies, design their messages for supervisory authorities, and provide examples of best practice and general strategic guidance. By doing so, RIAFCO would strengthen its own legitimacy and capacity for action in this area.

RIAFCO's advocacy work will bear fruit if the network develops its own in-house resources and successfully demonstrates the important contribution it makes to strengthening LGFIs.

## Summary

Several years on from its creation, RIAFCO has demonstrated its relevance and earned a reputation as a fully-fledged partner in supporting decentralization and local and regional governments in Africa.

However, as things stand, the fact that RIAFCO relies solely on its permanent secretary means that the network is struggling to fulfil its mandate and expand its influence on the continent.

The first priority, therefore, is for member LGFIs to uphold their side of the bargain and do more to support the network, using it as a tool to support their own development.

RIAFCO must also recruit more staff to carry out its activities on an ongoing, long-term basis.

To achieve this, the network – with the support of its member LGFIs – needs to run a sustained fundraising campaign to bring new financial partners on board. This campaign should be based on a road map determined by its members, and on a new action plan for 2019.



# 06

<b>Appendix 1 :</b> Content of FEICOM-Cameroon study	52
<b>Appendix 2 :</b> Content of FDL-Madagascar study	54
<b>Appendix 3 :</b> Content of ANICT-Mali study	56
<b>Appendix 4 :</b> Content of ANFICT-Niger study	58
<b>Appendix 5 :</b> Key components of Africa's municipal lending ecosystem	60
<b>Appendix 6 :</b> List of indicators from the broad-based index of financial development	62

# Appendix 1 : Content of FEICOM-Cameroon study

	Table of figures		
	Table of tables		
	List of abbreviations		
<b>01</b>	<b>Purpose of the study</b>	<b>05</b>	<b>The FEICOM instruments and the financing of the actions of the LAs related to the adaptation to climate change</b>
<b>02</b>	<b>Background on climate finance</b>	5.1	Reminder on the organization of FEICOM
<b>03</b>	<b>Decentralization in Cameroon and the place of FEICOM</b>	5.2	The Human Resources of FEICOM
3.1	The institutional framework	5.3	Financial resources of FEICOM
3.2	Some elements on the general state of financial development in Cameroon	5.4	Financial tools of FEICOM
3.3	The FEICOM	5.5	Current Challenges and Workplaces Opened by the FEICOM
3.4	The will of FEICOM to diversify its resources to meet the needs of municipalities	<b>06</b>	<b>Presentation of climate funds</b>
3.5	The issue of climate funds: a future option for diversifying resources in relation to the role of communities in combating climate change	<b>07</b>	<b>Focus on funds of potential interest to FEICOM and municipalities</b>
<b>04</b>	<b>Climate change actors and directions in Cameroon</b>	7.1	The Green Fund (GCF)
4.1	Actors in Cameroon intervening on climate adaptation	7.2	The Adaptation Fund (FA)
4.2	Guidance on climate change, a reference: the PNACC	7.3	The Global Environment Facility (GEF)
4.3	Municipalities in Cameroon: a key player in climate change adaptation	7.4	Climate Investment Funds and the Forest Investment Program (FIC / PIF)
		7.5	The Congo Basin Forest Fund (CBFF)
		7.6	International Climate Initiative (German Bilateral Fund)
		7.7	NAMA (Nationally Appropriate Mitigation Action) Fund
		7.8	Funds under development
		7.9	Other non-analyzed financing options
		7.10	Conclusions on the targeting of funds



## 08 | FEICOM and access to the Green Fund

- 8.1 Strengthening the credibility of FEICOM vis-à-vis its partners
- 8.2 Conditions for accreditation to GCF
- 8.3 Priority Projects for Accreditation
- 8.4 Government support for FEICOM
- 8.5 Trainings
- 8.6 The Roadmap for FEICOM for Green Fund Accreditation

## 09 | Conclusion

### Appendices

Appendix 1 : Financial capacities of the CTs, analysis made by the FEICOM's Observatory of Municipalities (LORA)

Appendix 2 : Bibliographic Items

Appendix 3 : List of People interviewed

Appendix 4 : Details of Criteria for Green Fund Certification Commented

Appendix 5 : Global Comment by the World Bank Governance Division Cameroon

# Appendix 2 : Content of FDL- Madagascar study

Table of figures, tables  
and boxes

List of abbreviations

Introduction

General presentation of  
the study on Madagascar

First part :

Financial decentralization in Madagascar

## 01 State of the premises of financial decentralization in Madagascar

- 1.1 Definitions associated with decentralization and local finance
- 1.2 Status of Financial Decentralization in Madagascar
- 1.3 National actors of decentralization and local development
- 1.4 Interventions and Support Outside the Decentralization Sector

## 02 The institutional framework of the equalization mechanism in Madagascar

- 2.1 The FDL-NPF scheme: a scheme under construction
- 2.2 Prerequisites for Successful Equalization

Second part :

The establishment of an equalization  
scheme in Madagascar

## 03 The contribution of the National Equalization Fund

- 3.1 What sources of matching for the NPF?
- 3.2 How will the NPF be matched?
- 3.3 What amounts to pay for the NPF?

## 04 The management and distribution of NPF resources

- 4.1 Eligibility and Distribution Procedures
- 4.2 The implementation modalities
- 4.3 Scenarios for the FDL

Third part :

Institutional and organizational  
strengthening of the FDL

## 05 The capabilities of the FDL

- 5.1 Overview of the FDL
- 5.2 Institutional and organizational analysis of the FDL



## 06 Short-term Action Plan to Strengthen the FDL's Capacity

- 6.1 Strengthen the programming and implementation capabilities of the FDL
- 6.2 Implementing the Equalization Award from the NPF
- 6.3 Strengthen Monitoring, Evaluation and Research-Capitalization Capabilities
- 6.4 Rebuilding FDL Mission II: Strengthening the capacities of local authorities

## 07 Medium and long term action Plan

- 7.1 The transformation of the FDL into an agency
- 7.2 Does the demographic dividend go through borrowing ?

## Appendices

Appendix 1-A : Resources: People interviewed

Appendix 1-B : Documents Consulted and Bibliographic Items

Appendix 2 : Equalization as a Solution

Appendix 3 : Examples from Northern and Sub-Saharan Africa

Appendix 4 : Definition of concepts

Appendix 5 : State of Play of Decentralization and Local Development

Appendix 6 : Elements on municipal borrowing

Appendix 7 : Recommendations for the future constitution of a Procedures Manual



# Appendix 3 : Content of ANICT- Mali study

Table of Figures, Tables  
and boxes

List of abbreviations

## 01 General presentation of the study

- 1.1 The context of country studies
- 1.2 The context of ANICT and Mali
- 1.3 Objectives and limitations of the study

## 02 Context : Recourse to borrowing by communities

- 2.1 The Territorial Change of Decentralization in Mali
- 2.2 A financial system under construction
- 2.3 Debt as a tool for development: a new paradigm to tame
- 2.4 The transformation of the financing system for development
- 2.5 The institutional and regulatory framework of LAs and ANICT: adapting to a new environment

## 03 The direction of the process and the possibilities to access the loan

- 3.1 Many possibilities, but significant constraints
- 3.2 The experience of specialized funds and agencies in the financing of LAs
- 3.3 Demand and supply: identifying available products and sources of finance
- 3.4 How to connect supply and demand?

## 04 Borrowing scenarios under the current ANICT Mechanism

- 4.1 Scenario of FNACT Guarantee Activation
- 4.2 Matching Scenario Loan-Subsidy in the framework of the Investment Endowment
- 4.3 Scenario for access to a credit line from banking institutions
- 4.4 Scenario based on access to innovative financing (climate)
- 4.5 Scenarios for access to borrowing through ANICT

## 05 The current position of ANICT in the borrowing process

- 5.1 A new status for ANICT?
- 5.2 The financial capabilities of ANICT
- 5.3 Organizational Capacity of ANICT



## 06 | Action Plan

---

- 6.1 | Summary of findings and proposals
- 6.2 | Next steps and actions to put in place

## Appendices

---

Appendix 1 : WARA Financial Ratings  
Criteria

Appendix 2 : Documentation and  
bibliography

Appendix 3 : People interviewed

# Appendix 4 : Content of ANFICT-Niger study

<p>Table of figures, tables and boxes</p> <p>List of abbreviations</p> <p>Introduction: Context of the study and methodology</p> <p>First part :</p> <p>The ANFICT in its environment: constraints and opportunities</p>	<p><b>04</b> Interim conclusions</p> <p>Second part :</p> <p>Short, medium and long-term measures to strengthen the financial situation of the ANFICT and facilitate access to long-term financing for local governments</p>
<p><b>01</b> The political and economic environment of a fragile country</p> <p>1.1 A political life apaisee</p> <p>1.2 The constraints of a fragile economy</p> <p>1.3 A fragmented company or tradition remains important</p>	<p><b>05</b> Modifying the basis and functioning of the decentralization support fund and equalization fund</p> <p>5.1 The decentralization support fund: a state of the work</p> <p>5.2 Reviewing the ADF device in the framework of a deep reform of tax decentralization in Niger</p> <p>5.3 Status of equalization and FP in Niger</p> <p>5.4 Reinforcing the equalization device</p> <p>5.5 Elements of conclusion</p>
<p><b>02</b> Decentralization in Niger, a hesitant process</p> <p>2.1 The implementation of decentralization in Niger</p> <p>2.2 The financing of decentralization and territorial collectivities</p>	<p><b>06</b> The implementation of the technical support service (GAT)</p> <p>6.1 Technical support for territorial authorities in Niger: a state of premises</p> <p>6.2 Establish the technical support facility in the context of a revision of the community capacity building process</p>
<p><b>03</b> ANFICT, an organization in process</p> <p>3.1 A young organization with restricted resources</p> <p>3.2 Elements of ANFICT organizational diagnosis</p>	



## 07 Access to sectoral, specialized and innovative funds

- 7.1 State of premises of sector funds
- 7.2 Specialized funds
- 7.3 Innovative financing

## Appendices

- Appendix 1 : Documentation and bibliography
- Appendix 2 : People interviewed
- Appendix 3 : Main legal texts concerning decentralization and deconcentration in Niger

## 08 Access to the borrowing market by territorial collectivities

- 8.1 Overview of Niger financial development
- 8.2 Borrowing of Niger collectivities from commercial banks
- 8.3 The possibilities of northern trade bank loans outside commercial banks
- 8.4 Obligatory market access

## 09 General conclusions and proposed actions

- 9.1 Cross-cutting recommendations
- 9.2 Proposals for short-term actions to strengthen the ANFICT in its role of support to territorial communities
- 9.3 Proposals for medium and long-term actions to expand the sources of territorial funding and the action of the ANFICT

# Appendix 5 : Key components of Africa's municipal lending ecosystem

If the mapping exercise is extended to all WAEMU member countries, or even to West Africa as a whole, the municipal lending system can be divided into **four components** :

- **Potential sources of capital and finance**

1. Commercial banks and some bank-like institutions (such as South Africa's Infrastructure Finance Corporation)
2. Banks and credit institutions specializing in municipal lending (CPCT, Agence de Développement Municipal [Municipal Development Agency – ADM])
3. Some LGFIs that use their own resources to offer lending facilities (FEICOM)
4. Development banks (WADB, AfDB, World Bank)
5. International financial institutions (KfW, AFD, etc.)
6. Investment funds (African and international)
7. Sector-specific funds
8. Innovative/climate funds (GCF, etc.)
9. Guarantee funds and institutions
10. Institutional investors (pension funds, insurance firms)
11. Private investors (companies and others)
12. International foundations
13. Diasporas
14. Islamic finance providers
15. Microfinance institutions

These categories are not mutually exclusive, since some institutions fall into more than one. Generally speaking, however, these 15 categories cover the vast majority of potential sources of finance for local and LA-led projects in Africa. The amount of funding available from these investors naturally varies from one country to the next. In Mali, for example, the diaspora is a potentially vast source of investment, whereas insurance firms and pension funds offer very little potential. Conversely, insurance firms and pension funds are keen to invest in Cameroon and have the liquidity they need for this. In Mali and Niger, several financial institutions linked to bilateral cooperation arrangements have expressed a willingness to invest in infrastructure investment programmes in major urban centres.

- **Modalities**

There is an equally diverse array of modalities by which (potential) creditors can lend money and by which borrowers (in this case, LAs) can access these funds :

1. Basic loans
2. Loan guarantees
3. Bonus and risk reduction schemes
4. Credit lines
5. On-lending
6. Non-sovereign loans
7. Infranational bonds
8. Project bonds
9. Blended finance (which, by definition, may include more than one of the above-mentioned sources and modalities)

- **Facilitators**

This list covers entities and organizations that match supply with demand. Once again, this is a relatively broad and disparate category, including :

1. Banks
2. Specialized financial intermediaries (in this case, some LGFIs that perform this function)
3. Credit rating agencies
4. Stock exchanges and regulators (Bourse Régionale des Valeurs Mobilières [Regional Stock Exchange, Abidjan – BRVM], Conseil Régional de l'Épargne Publique et des Marchés Financiers [Regional Public Savings and Capital Markets Council – CREPMF])
5. National ministries of finance and LA supervisory authorities
6. Syndicates



- **Borrowers**

At the end of the chain come LAs, as the entities that either take out loans or are responsible for loans taken out on their behalf. They can borrow individually, as a consortium, or through an LGFI or similar institution.

1. All LAs in a given country or region
2. Capital cities and some big cities (Dakar, Bamako, Abidjan, etc.)
3. Inter-municipal consortia, arranged by category (medium-sized towns/cities, big cities) or location (all towns/cities in a region or river valley, etc.)
4. Local service syndicates
5. LGFIs
6. Governments (through on-lending)

In some African countries (South Africa, Kenya, Morocco and Tunisia), the financial ecosystem features more than one of these components. This is not yet the case in the countries covered in this study. Of the four, Cameroon undoubtedly has the best-developed local financial ecosystem.



UNCDF © Eloïse Pelaud

# Appendix 6 : List of indicators from the broad-based index of financial development financier

Category	Indicator
Financial Institutions	
Depth	Private-sector credit GDP
	Pension fund assets to GDP
	Mutual fund assets to GDP
	Insurance premiums, life and non-life to GDP
Access	Bank branches per 100,00 adults
	ATMs PER 100,00 adults
Efficiency	Net interest margin
	Leading-deposits spread
	Non-interest income to total income
	Overhead costs to total assets
	Return on assets
	Return on equity
Financial Markets	
Depth	Stock market capitalization to GDP
	Stocks traded to GDP
	International debt securities of government to GDP
	Total debt securities of financial corporations to GDP
	Total debt securities of nonfinancial corporations to GDP
Access	Percent of market capitalization outside of top 10 largest companies
	Total number of issuers of debt (domestic and external, nonfinancial and financial corporations)
Efficiency	Stock market turnover ratio (stocks traded to capitalization)

Source: Katsiaryna Sviryzhenka, *Introducing a New Broad Based Index of Financial Development*, Washington, D.C., IMF Working Paper, WP/165, 2016.





Unlocking Public and Private  
Finance for the Poor

**UN Capital Development  
Fund (UNCDF)**

🌐 [www.uncdf.org](http://www.uncdf.org)  
✉ [info@uncdf.org](mailto:info@uncdf.org)



**Global Fund for Cities  
Development (FMDV)**

🌐 [www.fmdv.net/](http://www.fmdv.net/)  
✉ [contact@fmdv.net](mailto:contact@fmdv.net)



**Network of African Local  
Government Financing  
Institutions (RIAFCO)**

🌐 [www.riafco.org/](http://www.riafco.org/)  
✉ [riafco@gmail.com](mailto:riafco@gmail.com)



**Public – Private  
Infrastructure Advisory  
Facility (PPIAF)**

🌐 [www.ppiaf.org/](http://www.ppiaf.org/)  
✉ [ppiaf@ppiaf.org](mailto:ppiaf@ppiaf.org)