
From: [REDACTED]
Sent: Monday, June 13, 2011 6:25 AM
To: jeevacation@gmail.com
Subject: Re:

The city has not issued bonds related to anything that touches the poor. Ocean rights, fishing, roads, airport etc. I can ask our 4 reviewing teams to look again but from the list bill gave us, we see nothing pro-poor. The big thing he wants is something around sanitation since it is very difficult to actualize otherwise since the beneficiaries largely can't pay for it. In some cities I am able to use returns from the carbon finance with solid waste to cross-subsidize the sanitation costs but I don't really want to start up carbon stuff in Senegal. too hard.

We have a team traveling with me and the mayor is really knowledgeable too. The city financial team knows their stuff.

From: jeffrey epstein <jeevacation@gmail.com>
To: [REDACTED]
Sent: Sun, Jun 12, 2011 10:43 pm
Subject: Re:

The country issued 500 million dollars bonds last year. You need to review

Sent from my iPad

On Jun 13, 2011, at 1:19 AM, [REDACTED] wrote:

This is an email for you, please DO NOT FORWARD. Sorry about formatting, AOL not very good at it. The son of the president has a master's in "financial engineering" and would likely find this interesting given that he could lead West Africa. Small dollars compared to the size of the need, but certainly a step forward. Your friend does not like the mayor of Dakar so this could be tough if we only limited it to Dakar. My plan would be to see how ECOWAS tolerates this and then push deeper into Senegal, maybe Mali. Pikine and Saint Louis are other Senegal cities that might be do-able. And please don't make some rude comment about my skill set. This is my job and I am doing my best.

Ratio for Investing in Municipal Finance

In the developing world, most cities finance major infrastructure investments in two principal ways. They rely on transfers or on direct expenditures from central governments, or they allocate resources incrementally from their own limited budgets. As developing cities look anew at the plight of the urban poor, and as much needed investments in overall slum improvements, housing, transportation, potable water provision, sanitation infrastructure, and urban food security $\diamond=80\diamond$ to name but a few of the topics of interest to the foundation and to our partner cities – neither option holds much promise of making a dent in long term urban poverty alleviation. Central governments, particularly in Sub-Saharan Africa, often pay only lip service to decentralization and de-concentration of

services—or at the very least, these processes have yet to mature into reliable, accountable mechanisms for equitable transfer of investment funds to local governments. Scarce financial resources, political differences between national and local leaders, or simply bureaucratic inefficiencies have been the chief culprits in explaining why promised devolved funds often fail to materialize at the local level. Left to their own devices, cities have few alternatives but to finance infrastructure or long term capital investments through resources generated from their annual budgets—or to postpone or, most likely, ignore the much needed investments.

Investments that directly benefit the urban poor suffer disproportionately from this state of affairs. Whereas governments may occasionally step in to fund major road or energy projects that can benefit the urban population at large, they rarely if ever focus on initiatives that specifically target the poor or the informal settlements where the poor usually reside.

In select cases, the foundation has an opportunity to use the lure of increased access to capital as an incentive for cities to re-direct their attention on poor urban families. Specifically, in cities with potential access to capital markets and where fiscal conditions sound are in place, debt financing of long-term projects can be a useful substitute for annual budget earmarks—as is the case for most cities in the developed world.

Cities working under this theme would receive support from the foundation to enable themselves to access the debt market, in exchange for a guaranteed commitment that the majority of funds raised through the first round of financing would be dedicated to addressing issues of urban poverty—in some cases even targeted towards cross-subsidizing ongoing foundation projects (i.e., sanitation). Support would fall into two broad categories. The first would be support to the city to solidify finances, obtain a credit rating, and issue a bond on the commercial market[1]. The second would be to support participatory exercises with both city officials and organizations of the urban poor to plan the use of the anticipated resources, and funding for small scale, jointly-implemented pilots to test and refine the models/concepts selected so that when the financing comes through, they are ready for investment. While this theme involves significant external risks—including national-level regulatory approval, the evolution of global debt markets, etc. etc.—it also offers perhaps the greatest opportunity for leverage, sustainability and replicability across developing world cities with a small investment on our part and the majority of the risk borne through capital markets.

Illustrative Grant under Preparation: Municipal Finance in Dakar

The proposed intervention would help Dakar become the first West-African city to tap into capital markets to finance long-term investments benefitting the urban poor.

The Dakar Municipal Finance Program would be implemented over a period of five years. It would cost five million US Dollars and unlock an expected \$35 million by 2015. This would be achieved by enabling Dakar to issue its first municipal bonds and raise funds in city-backed debt financing, serving as a model for other West African cities. The condition for providing the support would be that a majority of the proceeds generated from the first bond issue would be jointly allocated with the poor to projects that benefit them directly. </=ONT>

Dakar, with almost four million inhabitants in its metropolitan area, is one of the largest and most economically vibrant cities in Sub-Saharan Africa. As the capital of Senegal, one of the most democratically stable and financially dynamic countries of the continent and as the de-facto economic center of the French-speaking CFA economic zone[2] <http://mail.aol.com/33790-111/aol-1/en-us/suite.aspx#_ftn2>, the city has emerged as an ideal candidate for pioneering municipal access to capital finance in the West African region. Indeed, as a member of the West African CFA community, Dakar's potentially trail-blazing role in viable municipal financing offers the promise of full-scale replication in a dozen cities across the region and beyond its frontier. The municipality has a track-record in pro-poor policy implementation (notably in the areas of education and health[3]) as well as ambitious urban revival plans for the city, which would benefit the poor, estimated to constitute 80% of Dakar's population. The mayor has also devoted considerable efforts to putting his financial house in order (with support from France) and to good governance.[4] According to an AFD (Agence Française de Développement) representative,[5] <http://mail.aol.com/33790-111/aol-1/en-us/suite.aspx#_ftn5> "the ability of Dakar's mayor to restructure (the city) financially is spectacular." Furthermore, the city has demonstrated political commitment to the poor. For example, formal consultative processes[6] <=SUP> <http://mail.aol.com/33790-111/aol-1/en-us/suite.aspx#_ftn6> have been set up and appear to be functioning, allowing stakeholders to voice their opinions. The project would build upon this pre-existing pro-poor orientation by creating a requirement, a structure, and enhanced capacity for the urban poor to play an active role in the planning, implementation, and monitoring of the investments funded by the bond.

The program's principal municipal government partner would be the Municipality of Dakar, which is headed by a pro-poor mayor who improved the financial position of the city. The civil society partner will consist of a network of a

dozen neighborhood and city level committees representing the urban poor. A Program Management Unit (PMU) would be set up within the Municipality to help guide key program activities and to ensure responsiveness and long-term viability. Other partners, including the Institut Africain de Gestion Urbaine, will provide additional support.

A. Program Description, Objectives and Results

The Dakar Urban Municipal Finance Program would be implemented over a period of five years and would be expected to cost approximately five million US Dollars. The Program would include four main phases:

- **Involving the Poor in the Program.** This phase of the program would ensure that the voice of the poor is heard by the city from the day the program begins and beyond the life of the program. It would also reduce the risk of municipal bonds proceeds going to projects that are not relevant to the poor. Involving the poor in the program could be done by: a) holding meetings with civil society at the city hall, and in neighborhoods to announce and explain the program, b) involving the poor in quarterly decisions on how expected resources would be used, c) creating a formal mechanism (for example through an SDI affiliate), to enable the poor to monitor the use of funds and d) implementing small pro-poor pilot projects.

- **Helping Dakar Issue Municipal Bonds.** This phase of the Program would focus on helping the Municipality continue to get its "house in order" from a financial perspective, and would result in the issuance of municipal bonds. Over a period of up to two years, we would work with municipal authorities to ensure that Dakar can fulfill all fiscal, financial and regulatory conditions required to issue long-term debt in the ECOWAS region's capital markets. This is notably expected to include: (a) helping the city clean up and better document its tax base in order to maximize future fiscal revenues; (b) obtaining a favorable credit rating, by building on the city's recent work with international partners and financiers (notably the French Agency for International Development or Agence Française de Développement); (c) working with the city and its national government counterparts to ensure that the government will have what it needs to provide its non-objection at the required time; and (d) preparing all appropriate documentation necessary to go to market, including an explanation of program objectives, repayment cash flows, and guarantee or credit enhancement mechanisms.

- **Help Obtain Investments for Future Financing.** This phase of the program consists in raising long-term financing for pro-poor investments (sanitation, etc.) that cannot be financed through the Municipality's recurrent budget. Through this grant, we expect the city to raise approximately \$35 million by 2015 in city-backed debt financing. The types of programs that could be piloted in the first few years of the project to prepare them for greater levels of financing when the bond is successfully issued include (1) upgrading of the DKL neighborhood [\[7\]](http://mail.aol.com/33=90-111/aol-1/en-us/suite.aspx#_ftn7) (including investments in water and sanitation infrastructure); (2) improving food security in Dakar and Pikine, by scaling up urban agriculture initiatives and capitalizing a municipal fund in support of urban micro-gardens; (3) investing in revamping outdated city-wide solid waste in Grand Yoff and Parcelles Assainies (primary collection) management infrastructure; and (4) other capital investments in informal or poor neighborhoods (such as street paving or potable water provision) that would increase access to basic services and help create jobs.

- **Scale up Investments Once Financing Obtained.** This phase would begin only after financing has been obtained, in the third or fourth year. Our partners would now ensure that municipal investments are pro-poor and aligned with stated objectives.

B. Monitoring and Evaluation (M&E) Indicators

The basic indicators that project partners would track, with guidance from DIG, could include some of the following:

- Diagnostic of city's debt capacity concluded;
- Amount of financing raised through municipal bonds on capital markets or private debt placement;
- Increase in revenues for the urban poor;
- Number of people with improved neighborhoods;
- Increase in number of poor urban families with access to water;
- Increase in number of poor urban families with access to sanitation services;
- Increase in number of streets serviced (primary waste collection);

C. Risks/Potential Challenges

The risks and potential challenges DfW envisions are mostly political and inherent to any municipal work. The Mayor of Dakar's term expires in three years. He and the president are from different political parties, which can be a source of tension. How capital markets in the region would react to an innovative municipal bond issuance is unknown. Nevertheless, based on our initial assessment in Dakar (March 2011), these risks are low, can be managed and are out-weighed by enormous potential benefits for the city's poor population.

D. Opportunities for Scale and Replication

The opportunities for scale and replication are compelling. Dakar's example would have an important trail-blazing effect at a national level (for cities like Saint Louis for example), at a regional level (for other ECOWAS countries sharing the stock market) and even at a Sub-Saharan level.

[1]<=SPAN>

[2]<=SPAN> <http://mail.aol.com/33790-111/aol-1/en-us/suite.aspx#_ftnref2> Senegal is one of nine countries sharing the Franc CFA currency and a joint stock market.

[3]<=SPAN> <http://mail.aol.com/33790-111/aol-1/en-us/suite.aspx#_ftnref3> Pro-poor programs include the "Allez à l'Ecole" program, which provides milk for children two days a week to reduce hunger and improve performance, and funds vaccinations and dental exams (in partnership with Colgate Palmolive). Out of Dakar's 159 schools, 89 are undergoing renovations. </=ONT>

[4]<=SPAN> <http://mail.aol.com/33790-111/aol-1/en-us/suite.aspx#_ftnref4> Dakar is one of the cities that signed the "Charte de Bonne Gouvernance".

[5]<=SPAN> <http://mail.aol.com/33790-111/aol-1/en-us/suite.aspx#_ftnref5> Quote from Mathieu Vasseur, French Agency for International Development (AFD). Meeting with DIG team, March 2011, Dakar.

[6]<=SPAN> <http://mail.aol.com/33790-111/aol-1/en-us/suite.aspx#_ftnref6> These mechanisms include a consultation committee and neighborhood level committees (called the Conseil Consultatif, the Comité Consultatif and the Conseil des Quartiers.)

[7]<=SPAN> <http://mail.aol.com/33790-111/aol-1/en-us/suite.aspx#_ftnref7> This 10-15 year project is an urban renewal of Dakar to transform the city into a hub for the private sector. It focuses on the Grand Yoff area, which has high levels of poverty.

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