



# PPIAF

Enabling Infrastructure Investment

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## PPIAF Helps Kampala Capital City Authority Improve its Creditworthiness

Since 2012, PPIAF's Sub-National Technical Assistance (SNTA) program has been working with the reform minded administration of the Kampala Capital City Authority (KCCA) to: enhance the city's own source revenues; and, improve its financial management, accounting policies and procedures, and debt management practices. SNTA also supported the development of a PPP project pipeline by providing early feasibility advisory for PPP projects in the transport and social infrastructure sectors.

This Technical Assistance was implemented within the framework of the KCCA's Strategic Plan with the result that Global Credit Rating assigned KCCA an "A" rating in April 2015 (investment grade) with an "A, stable" outlook for 2016 (ratings on the national scale). The rating report highlighted several positive trends for KCCA, and noted unprecedented improvements in own-source revenue generation, including the maximization of existing and identification of new sources.

Uganda has maintained an impressive level of economic growth during the past decade (annual average 6.92% GDP growth since 2007), but it needs to tackle bottlenecks in infrastructure provision to boost employment and reduce poverty. Population growth and urbanization are issues of growing concern; while the current level of urbanization in Uganda is still low at about 18%, it is projected that by 2035 Uganda's population will be 68 million of which 30% will be in urban areas. The urban population already accounts for about 72% of manufacturing output and over 55% of the national GDP. It is therefore crucial that the urban sector is managed efficiently and effectively to contribute to growth.

As the principal urban economy, accounting for approximately 50% of GDP, Kampala is central to the Ugandan government in ensuring sustainable development of the country. To this end, in 2010 the central government created the KCCA with the intent to improve the city's administration and provide services

within an effective, efficient and accountable framework under the direct supervision of the central government. At the time, the city faced multiple problems: poor revenue collection and management and consequent overreliance on transfers from central government; inadequate policy regimes governing development planning and debt management; and poor service delivery and opaque governance and taxpayer engagement, resulting in resident disaffection.

To address these issues, KCCA developed a Strategic Plan, comprised of initiatives to restore good governance and service delivery. These initiatives targeted issues ranging from accounting and financial management, human resource development, to public transportation and city beautification. In successfully implementing these initiatives, KCCA has garnered a reputation of being an effective, reform minded and innovative authority.

### PPIAF SUPPORT

In 2012 the KCCA sought PPIAF's assistance to improve its financial management, maximize revenues, improve debt management performance and develop a PPP project pipeline. The work was launched in December 2012 with a Financial Management Assessment (FMA). The assessment found that there had been a recent positive trend in revenue collection for the municipality but several factors, including inadequate property records, inefficiencies in business licensing fee collection and manual billing processes represented a significant drag on revenue growth. It also identified the need for improved accounting and monitoring practices and for adjustment of policies to accommodate long term capital expenditure planning with commensurate sources of financing. The FMA was followed by a Debt Management Performance Assessment (DeMPA) in 2014 that made recommendations to aid KCCA in the preparation for accessing and managing short and long term instruments. PPIAF also funded an independent credit rating, which provided KCCA an objective benchmark of the gains made under the Strategic Plan.

A critical element of the SNTA program's approach was to leverage best practice and experience from other cities in the region to enhance the capacity of the KCCA Treasury Services and Revenue Directorate. To this end, an ongoing peer-to-peer capacity building program was established with the Municipal Institute of Learning (MILE), a pro bono educational organization that is part of Durban's eThekweni Municipality. In June 2013, four senior members of the KCCA Treasury Services Directorate spent a week with peers from the eThekweni finance department to improve their city's accounting policies and procedures manual. And in November 2013, five senior members of the KCCA Revenue Directorate traveled to eThekweni to establish benchmarks for best practice revenue

collection. A series of short, medium and long term recommendations were established by the teams that were brought back for consideration and implementation by KCCA.

The technical assistance in the area of PPP pipeline development focused on helping KCCA to build its capacity in identifying optimal projects for this type of financing structure and also help solidify the current pipeline. A workshop was held in 2014 that generated a draft PPP policy to be inserted into the KCCA strategic plan that regularizes the development and procurement of PPPs to ensure that core factors such as financial viability and competitive, transparent procurement practices are at the forefront of any PPP process. In addition to the policy recommendation, PPIAF-SNTA worked with KCCA to identify projects with high levels of viability including a Bus Rapid Transit system, a hospital, and an expressway. PPIAF also provided early stage feasibility analysis for the hospital and the expressway, including training on developing and understanding how to interpret financial models that are the basis for PPP project analysis.

Looking forward, PPIAF will assist KCCA to scope optimal financing solutions by performing a market sounding study to investigate the types of debt instrument available in the Ugandan context and also the interest of investors for the possible options.

In May 2015, KCCA participated in the Creditworthiness Academy organized in Uganda and shared their experience and lessons from implementing these initiatives, with 28 Ugandan municipalities.

### OUTCOMES

Working under the framework of KCCA's Strategic Plan, PPIAF-SNTA assisted KCCA to establish policies and best practices to improve its creditworthiness. A pipeline of high potential PPP projects has been established, possible financing solutions proposed and institutional bottlenecks identified. In April 2015, coordinated PPIAF assistance led to KCCA getting an "A" rating (investment grade) on the national scale for long term debt instruments.

### IMPACTS

From FY2012 to FY2014, KCCA saw an 83% increase in its Own Source Revenues. And the rating report by Global Credit Ratings approvingly noted KCCA's improved operational capacity to deliver large infrastructure projects. These results have placed KCCA in a position where it is less reliant on transfers from central government and has an improved ability to develop viable projects that will improve services for residents.