

Sub-National Development Technical Assistant Program (SND)

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Responsible Network and Sector:	Sustainable Development Network (SDN)
Recipient Agency:	Public Private Infrastructure Advisory Facility (PPIAF)
Web Address:	www.PPIAF.org
Financial Arrangements for FY09 (Amount in US \$ Million)	
Total Budget:	7.00
DGF Funding Request:	2.00
DGF Percentage:	29%
Objectives and Expected Outcomes	
<p>The Sub-National Development (SND) Program is intended to respond to increasing decentralization of the responsibility for the provision of public services and financing capital expenditure to sub-national entities (including municipalities and local utilities). The SND Program is enhancing the capacity of sub-national entities to fulfill this emerging role by providing TA services to strengthen their financial management, fiscal responsibility, and creditworthiness to improve their access to private finance markets without the need for sovereign support.</p> <p><u>Expected Outcomes:</u> The overall development objectives of the Program at the outcome level are:</p> <ol style="list-style-type: none"> 1. Enhanced creditworthiness of sub-national entities to facilitate access to private financial markets without sovereign guarantees. 2. Strengthening governance, financial management practices and fiscal responsibility to support decentralization while mitigating financial and regulatory risks. 3. Building the necessary institutional capacities for sub-national entities to be able to perform their role as providers of basic services to their constituencies. 4. Contributing to the ability of central governments to pursue their other development priorities, such as health and education, by mobilizing more private sector resources (via access to financial markets and by being better partners in PPPs) to support decentralized provision of public services. 	
Main Components	
<p>The SND TA Window provides three types of products to sub-national entities: (i) <i>Strengthening sub-national capacity:</i> The Program provides technical assistance to prepare sub-national entities to operate without government financing or sovereign guarantees. The assistance also aims to improve infrastructure management and operating environments. (ii) <i>Upstream transaction and market development - improving (financial) transparency and financial management:</i> The Program advises on pre-requisites for non-recourse or limited-recourse financing and on alternatives to strengthen sub-national entities' financial standing and creditworthiness by providing fiscal, financial and operational restructuring and advisory services. (iii) <i>Project facilitation:</i> The Program supports eligible borrowers to meet the creditworthiness and financial and operational transparency requirements of local and international financial markets in order to help qualified borrowers obtain financing with credit enhancements and without sovereign guarantees. This technical assistance is provided to sub-national entities that are qualified by virtue of their financial transparency, audited financial statements, a track-record of good quality corporate governance policies and practices, and potential for access to capital markets with credit enhancement.</p>	
Performance Indicators	

The principal performance indicators of the SND Program are the number of sub-national institutions that achieve financial strengthening and viability (as measured by the amount of market-based financing raised and the number of new and improved credit ratings attained by recipient entities); and the level of improvement in infrastructure service delivery, particularly to poor households, achieved by increasing access and improving quality and affordability.

Progress and Achievements

The Program formally began operations in July, 2007 and focused initially on efforts to carry out basic outreach and communication activities with potential clients and build a pipeline of applications appropriate for the recipient-execution characteristics of DGF-funded assistance. By March 31, 65% of the Program's total first year funding was committed, including eight grant agreements representing the total \$2 million DGF funding allocation to the Program. These DGF activities, supporting all of the PDO Indicators, include the following: (1) Uganda (\$75,000), for a water utility bond issue; (2) Southern Africa (\$203,500) for credit ratings and reform programs for three regional development finance institutions; (3) Colombia (\$150,000) for a feasibility assessment of market-based financing options for urban mass transit in the city of Bucaramanga; (4) Colombia (\$100,000) for creditworthiness improvement of an infrastructure development company owned by the city of Pereira; (5) Colombia (\$223,200) for creditworthiness improvement of the city of Barranquilla, so it can borrow to finance bus rapid transit; (6) South Africa (\$369,360) for assistance to sub-national governments in southern Africa to support their borrowing for infrastructure investment; (7) Honduras (\$373,600) for infrastructure financing appraisals done on projects in three municipalities; (8) Ukraine (\$505,340) for a creditworthiness enhancement program in the city of Rivne, implemented in collaboration with the European Bank for Reconstruction & Development (EBRD). This last grant agreement is still being finalized in consultation with EBRD's legal department.

Partners

The Program's donor partners include IFC's Funding Mechanism for Technical Assistance and Advisory Services (FMTAAS), which has committed \$4 million over the first two years, and DFID, which has committed \$10 million over three years. The size of this current pipeline has encouraged several other donors to signal the likelihood of future financial support for the Program. Switzerland currently is in discussions regarding additional funding for the Program. Australia, Sweden, the Netherlands have also indicated interest in the Program.

Governance and Management

The governance and management structure of the Program consists of a Donor Group, a Technical Advisory Panel and a Program Management Unit. The PPIAF secretariat acts as the Program Management Unit, and reports to a governing body (made up of the donors to this facility) which is a sub-set of the larger PPIAF Program Council. The PMU is responsible for the day-to-day management of the Program in accordance with the general SND strategy and the annual indicative work program approved by the Donor Group. Funds are held in a non-core trust fund that is separate from the PPIAF multi-donor fund. Fund use is subject to project approval by the SND Donor Group. A Technical Advisory Panel of independent experts evaluates SND-TA activities on an annual basis, with comprehensive program audits scheduled at appropriate intervals.

Exit Strategy

The Program has an explicit disengagement strategy that aims to reduce DGF's funding share from 30 percent in FY08 to 15 percent in FY10, following which the Program will exit from DGF. The aim is to generate sufficient funding such that DGF's share does not exceed 15 percent over the three year period. The Program's basic contentions that the need for sub-national financial capacity building is critical for achieving development objectives and that there is substantial demand for such capacity building, have already generated substantial interest among members of the partnership. Donor partners see the Program's objectives and high quality deliverables linking directly with their development agendas relating to decentralization and related reforms. The continued commitment of donor members will ensure the Program's sustainability as it transitions beyond DGF support.