

# IADF BULLETIN



## *FINANCING LOCAL GOVERNMENT*

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April 2005

### **IADF Happenings**

by Steve Thomas, Executive Director, IADF

IADF continues to go forward with its programs, with plans in the works for potential events later in 2005 and early in 2006. With these in mind and with the IADF in wonderful shape to continue serving its role as a conduit of information concerning the municipal finance community, I would like to take this opportunity to announce my resignation as Executive Director of IADF. I will be leaving as of the end of April, 2005 to pursue other interests.

I have greatly enjoyed my time as ED of the IADF. In my year and a third at IADF, we have strived to fulfill our mission to facilitate the north-south and south-south transfer of information through our various high-quality programs and activities, including our website, newsletter, conference, and database. I am very confident that these programs are both useful and unique, and will remain so for many years to come.

I will be replaced on a temporary basis by Ms. Kathy Shandling, whose background as Executive Director of the International Private Water Association leaves her very well suited to carry IADF's programs forward. I will also remain as involved as I am able to assist in any way I can.

It has been a great pleasure to meet so many of you and to work with you as a part of IADF's programs. I hope to be able to continue working with you going forward.

Steven G. Thomas  
Executive Director  
International Association of Development Funds

**Further information on the IADF can be obtained from our newly redesigned website: [www.developmentfunds.org](http://www.developmentfunds.org). Submissions and can be sent to [info@developmentfunds.org](mailto:info@developmentfunds.org).**

### **NEWS DESK**

Compiled by: Nina D'Arcangelo and Kristyn Oldendorf

#### **IDB, JBIC, BANCO DO BRASIL SIGN MEMORANDUM OF UNDERSTANDING**

[www.iadb.org](http://www.iadb.org)  
April 12, 2005

A memorandum of understanding was signed by representatives of the Inter-America Development Bank, the Brazilian state of Minas Gerais, the Japan Bank of International Cooperation and the Banco do Brasil. This document shows the organizations' commitment to exchange information and discuss future financing for PROACesso, a state road project serving disadvantaged communities of Minas Gerais.

The project will improve roads that will link 224 poor municipalities to national and state highways. In the past, the mostly dirt roads created high transportation costs and isolated these communities from the rest of the country. The project will upgrade the roads to all-weather roads, reducing costs and poverty in these regions.

In addition to financing the project, the IDB, JBIC and Banco do Brasil will also share information regarding environmental issues and other concerns about the project.

#### **Argentina: WB approves a \$130 million For Flood Protection works in Buenos Aires**

[www.worldbank.org](http://www.worldbank.org)  
April 5, 2005

The World Bank today approved a US\$130 million loan for flood protection works in Argentina's capital city of Buenos Aires. The first phase of the loan will reduce the city's vulnerability to flooding through improvements to its drainage system and the implementation of a risk management program to be executed over a period of six years. Axel van Trotsenburg, the World Bank Country Director for Argentina, Chile, Paraguay, and Uruguay, states that the program will improve flood risk management and, consequently, improve the living conditions of vulnerable and poor people.

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The Urban Flood Prevention and Drainage Project Adaptable Program Loan phase one will focus on flood risk identification and reduction through prevention, mitigation, and education. To achieve this, the project will support the following activities:

- Develop key flood protection facilities, including the construction of two collection tunnels (9.9 km and 4.7 km long, respectively) to improve the functioning of the existing draining system in the Maldonado Basin. The Maldonado Basin is considered to be a major area of investment for the city government because of its vulnerability to floods, according to Maryse Gautier, World Bank task manager for the project.
- Assist the city government in promoting a risk management approach to dealing with floods, including prevention, mitigation and response.

The fixed-spread US\$130 million adaptable program loan is repayable in 15 years, with a grace period of 5 years. The total project cost is US\$209 million, including counterpart financing from the City of Buenos Aires of US\$79 million.

The Bank's investment lending support for this program will be through a two-phase Adaptable Program Loan. The first phase, supported by this loan, will develop a risk management framework program for the City of Buenos Aires. The second phase will develop a risk management program for the six provinces most vulnerable to flooding (e.g., Chaco, Corrientes, Misiones, Santa Fe, Formosa and Entre Rios).

#### **Albania: WB issues Sanctions in Water Supply Project**

[www.worldbank.org](http://www.worldbank.org)

March 28, 2005

The World Bank announced the debarment of 5 individuals and 6 firms for collusive practices in relation to the World Bank-financed "Water Supply Urgent Rehabilitation Project" (WSURP) in Albania. These firms and individuals will be ineligible to receive any new World Bank-financed contracts for the periods of their debarments, ranging in this case from one to five years. One individual was also given a public letter of reprimand.

The purpose of the WSURP was to rehabilitate on an emergency basis the water supply system in the cities of Durres, Fier, Lezhe, and Saranda in Albania. Specifically, the project sought to improve the quality and quantity of water supply through provision and installation of specific equipment as well as through the creation of contracts for critical on-site repairs of visible leaks in the water distribution network.

In his approval of the decision, World Bank Country Manager Mr. Nadir Mohammed stated that "The actions of the companies and their directors were designed to deprive the borrowing country of access to competitive pricing in establishing bid prices at artificially high levels. The sanctions taken against the companies show our readiness to safeguard the procurement process in Bank-funded projects and to ensure that the Albanian people benefit from development programs and economic growth."

#### **USAID Expands Access to Clean Water with New Programs**

<http://www.usaid.gov/press/releases/2005/pr050323.html>

March 23, 2005

In observance of World Water Day 2005, the U.S. Agency for International Development (USAID) announced that over 9.5

million people now have better access to clean water and approximately 11.5 million people have access to adequate sanitation because of President Bush's U.S. Water for the Poor Initiative. This program improves fresh water management in over 70 developing countries. USAID is ahead of target to meet its commitment of providing \$970 million for the initiative over three years.

Over one billion people on the planet lack adequate access to clean and safe water, and over two billion are without appropriate sanitation facilities. Others have access to clean water, but because of improper storage and handling it later becomes unsafe.

"Both long-term improvements in infrastructure and immediate safe-water solutions to treat and safely store water at the household level are critical," said USAID Administrator Andrew S. Natsios. "Innovative private sector financing for water and sanitation programs are key to both short and long-term solutions. USAID is leveraging these public and private investments to guarantee that water, an essential building block for civilization, is available to all."

Private corporation and government alliances are being used to support many of these programs. Since 2002, USAID has invested \$1 billion in over 290 alliances in 98 countries, which is matched by over \$3 billion in private funds.

In addition to water supply, USAID is supporting key hygiene programs that have a major public health impact. These programs advocate hand washing, the proper use of latrines, water disinfection and safe storage at the household level. USAID supports efforts to make sure water is safe to drink in development, conflict and emergency situations, such as the tsunami affected areas or in the rebuilding of Iraq.

#### **Development Projects Evaluation in Africa: Key decision-makers meet in Tunis to improve aid efficiency processes**

<http://www.afdb.org/>

April 4, 2005

As part of its effort to improve the quality of development aid, the Joint Africa Institute (JAI) had its first week-long high-level regional Seminar on Development Evaluation which was held in Tunis, Hotel Africa, April 4 - 8, 2005. The seminar is organized by the JAI, in partnership with the Operations Evaluation Department from the World Bank and the African Development Bank.

Leading experts on development evaluation and senior executives from 25 African countries, regional economic institutions, and multilateral development agencies discussed a variety of topics, such as approaches, methodologies and best practices in development evaluation. Organizations in attendance included UNDP, World Bank, Islamic Development Bank, Development Bank of Southern Africa, the Economic Community of West African States and Agence Intergouvernementale de la Francophonie.

Delegates in attendance discussed conceptual issues related to results-based management, the successful conduct of evaluations, logic models, types of evaluations, design options, data collection, analysis and reporting of evaluation findings to policy makers. Key speakers at the event included Ms. Linda Morra-Imas, Chief Evaluation Officer, International Finance Corporation; Mr. Ray Rist, Senior Evaluation Officer, World Bank; and Commissioner Mxakato-Diseko of the Public Service Commission of South Africa.

Mr. Micheal Bauer, Director of the JAI focused on "the need for a harmonized approach to monitoring and evaluation in Africa" and

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stated that “the Joint Africa Institute would be pleased to provide support in this direction.” The Joint Africa Institute (JAI) was established in April 1999 by the African Development Bank, the International Monetary Fund, and the World Bank to enhance economic and financial training opportunities in Africa.

#### **USTDA GRANT SUPPORTS EFFORTS TO RAISE WASTEWATER TREATMENT CAPABILITIES IN GUANGDONG, CHINA**

<http://www.tda.gov/>

April 5, 2005

On April 1, 2005, the U.S. Trade and Development Agency (USTDA) awarded a \$310,825 grant to the Guangdong Provincial Office for World Bank Projects for a feasibility study on an urban environment project in the Pearl River Delta region of Guangdong Province. The grant agreement was signed by Yuchang Zeng, Director of the Guangzhou Provincial Office for WB Projects, and Henry Steingass, USTDA Regional Director for Asia, at the World Bank Guangzhou Office. Vice Mayor of Jiangmen City, Mr. Gao Dongsheng, and U.S. Consul General for the American Consulate General Guangzhou, Edward K.H. Dong, witnessed the signing.

The USTDA grant will provide technical support to the Guangdong Provincial Government on improving wastewater treatment facilities and practices in Jiangmen City. Jiangmen is vulnerable to water quality problems because of its location in the highly industrialized Pearl River Delta. The project constitutes Phase III of a World Bank-supported water, wastewater and waste management investment program in China.

The successful implementation of this project is expected to have a significant impact on water quality and mitigating contamination problems in the Pearl River Delta, as well as the establishment of sustainable environmental standards. A U.S. environmental engineering firm, Metcalf and Eddy, based in Watertown, Massachusetts, was selected by the Guangdong Provincial Government to conduct the USTDA-funded feasibility study.

#### **CITY OF NORTH BAY RECEIVES \$50,000 FROM THE GREEN MUNICIPAL FUNDS FOR WIND POWER PROJECT**

[www.fcm.ca](http://www.fcm.ca)

April 1, 2005

Mayor Victor Fedeli of the City of North Bay; Mayor Ann MacLean, President of the Federation of Canadian Municipalities (FCM); and Anthony Rota, Member of Parliament for Nipissing-Timiskaming, announced today a \$50,000 Green Municipal Funds' grant for North Bay. The funds will help the City develop a business case with a view to bring private investments to the implementation of a wind farm that would transmit energy to the municipal grid operated by City-owned North Bay Hydro.

“Taking advantage of locally available green power resources is a good fit with the long-range development strategy we have for the community,” said Mayor Victor Fedeli. West Wind Development, Inc. was selected for completing the first half of the project. The installation of a 50 metre-high tower on City-owned property in a sector of the City was just completed and is positioned in order to capture the ‘lake effect’ of Lake Nipissing. Instruments supported by the tower will collect data on a continuous basis for a 12-month period to evaluate the local wind power potential. Once the wind profile of the surrounding area is fully understood, an assessment will be done to determine how this wind energy potential could be developed.

“The Green Municipal Funds’ support for projects like this is helping Canadian municipal governments – large and small, urban and rural – develop greater local self-sufficiency in green energy and, in the process, it is helping them to contribute to Canada’s

commitment to reduce greenhouse gas emissions,” said MP Anthony Rota.

The Government of Canada has endowed \$250 million to the Federation of Canadian Municipalities to establish and manage the Green Municipal Funds. The Funds support partnerships and leveraging of both public and private sector funding to reach higher standards of air, water and soil quality, and climate protection. In Budget 2005, the Government of Canada committed a further \$300 million to the Green Municipal Funds.

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## **INTERVIEW**

**Patricia Clark Annez, Urban Advisor, Urban Unit, World Bank**

By Steven Thomas and Sophie Guiny

*IADF: What are your title and responsibility at the World Bank?*

PCA: I am an urban advisor in the Urban Unit in the Infrastructure Vice-Presidency. This is a central technical unit in the World Bank. We provide advice on projects all across the Bank dealing with urban development. We work on extracting lessons from experience, organizing training and providing opportunities for urban staff and clients to exchange views on important operational and policy issues. One of our important recent initiatives has been to help implement the Infrastructure Action Plan intended to reinvigorate infrastructure lending in the Bank.

*IADF: The World Bank organized a conference entitled “Mobilizing Urban Infrastructure Finance in a Responsible Fiscal Framework: Lessons from Brazil, China, India, Poland and South Africa” in Jaipur, India, on January 6-8, 2005. You delivered the introductory speech to this conference. Could you tell us who was present at this conference?*

PCA: We wanted to focus the conference on an exchange of views on the practical solutions to problems that many of our clients face, so we invited decision makers from developing country cities to make the presentations and hence frame the issues. International experts such as George Peterson of the Urban Institute and representatives of World Bank and other donors also attended to participate in the discussions. Although the conference was held in India, we covered all five countries in the presentations. One very positive aspect of holding the conference in India was that many Indians were able to join us for the conference, so the outreach to clients was better than had we held it in Washington, for example.

*IADF: How was the conference organized?*

PCA: We deliberately kept it a small conference; there were maximum fifty people in the room at the same time, which kept debates more informal and lively. We purposely brought together people with different perspectives, including officials from Ministries of Finance and financial managers for cities. We encouraged a debate on issues for which there are no pat solutions, just better or worse balancing of some difficult tradeoffs. We were successful in that most of the participants felt they gained perspective from the variety of views presented around the table. Featuring discussion of a limited set of issues for just a few countries rather than having a series of disparate presentations from many places also provided some useful perspective on how the pieces of the picture fit together, and by consequence, some sense of how to consider applying lessons learned.

*IADF: Who were the other sponsors of the conference?*

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PCA: The conference was co-sponsored by the Government of Rajasthan, the Infrastructure Development Finance Corporation in India, the Caixa Economica Federal of Brazil, USAID, the National Institute of Urban Affairs in India, DFID (the UK Department for International Development), PPIAF (Public Private Infrastructure Advisory Facility), the Council of Europe Development Bank, and the World Bank. Working with partners really enriched the conference, and having some local sponsorship made a big difference.

*IADF: What were the major themes discussed at the conference?*

PCA: The conference looked at how to achieve two potentially conflicting objectives of expanding urban infrastructure investment and maintaining fiscal discipline. Within that broad topic, we discussed the overall framework for achieving fiscal balance at the subnational level, viewed from both the central government's vantage point and the local level. Second, we considered strategies for mobilizing investment finance, and finally, looked at the means of recovering capital costs.

Some of the main insights were:

- 1) The fiscal risks of decentralization are real, but manageable.
- 2) Neither reforming the financial sector nor eliminating soft money for municipalities are alone sufficient to ensure that municipal governments will successfully tap private capital markets.
- 3) Municipal assets, especially public lands, can be used to finance infrastructure development, either through direct sales or as collateral, and are often underused.
- 4) Private investment in local infrastructure remains a hope in most countries, but one whose performance lags well behind expectations.

*IADF: Could you tell us more about the decentralization experiences discussed at the conference?*

PCA: Experience in South Africa and Poland illustrate that it is possible to devolve substantial responsibilities and resources to local governments in risky environments without creating long term macroeconomic problems. Achieving this result usually requires an iterative process of multiple reforms. Second generation reforms should thus not be seen as a sign of failure, but as a healthy adaptation of a complex system. On the other hand, both the Brazilian and the Indian experience illustrate in different ways that controlling local governments to avoid risks may involve substantial costs.

*IADF: What are some of the key sources of funding for municipalities covered in the conference?*

PCA: Intermediary lending to municipalities has been used extensively. This is a specialized business line that needs to be nurtured on both the demand and the supply sides. Municipalities need to have a minimum threshold of functional responsibility and revenue generation capacity; credible municipal accounting, reporting, and auditing rules are required to provide comfort to the private sector; and even private intermediaries need strong support in the start up stage to build the business of municipal lending. These factors are all significant in both the successes experienced in Poland and South Africa, and in the disappointing performance of India's cities in tapping funding for infrastructure from a financial sector that is exceptional for its depth of intermediation and scope of financial services provided.

Regarding direct private investment, the successful cases discussed in the conference relied on specific conditions that would be difficult to replicate broadly. Very rarely can all the necessary conditions for reducing private sector risk to manageable levels be assembled. One of the key issues is, of course, household tariff

rates, which are very broadly subsidized in most places; specific cases of Brazil, China, and India were discussed here. It is only in those cases where an alternative source of funding is available, be it other municipal revenues or cross subsidization from captive industrial users, that the full cost recovery necessary to attract private financing is achieved. Conference discussions indicated that the high hopes placed on PPP as an alternative source of funding urban infrastructure may well be misplaced.

Another source of funding is using land assets. Land can provide collateral for municipal borrowing, or leasing can be used to generate revenues. There are risks involved here, but there are also benefits; it is a question of achieving the right balance. In Poland after the transition, and in Shanghai, this approach was adopted successfully. There are risks, especially in the collateralization approach, and the very aggressive methods once used in Shanghai are not likely to be replicable in other contexts. For example, the risks of using future land values as collateral for borrowing (this practice has been reined in since) have not materialized, partly because of sustained double digit growth over twenty years. Nonetheless, countries such as India possess massively underused land assets, whose potential value should be unlocked for infrastructure finance.

Once cities finance investments, they also need revenues to cover debt service, of course. Typical sources of revenue for this purpose are local taxes like the property tax, user charges, and shared taxes or transfers from higher levels of government. Central or provincial governments often have an advantage over municipalities in raising tax funds efficiently, so these transfers make sense, and are usually a very important element in municipal finances.

*IADF: Will there be a follow-up of the conference?*

PCA: We want to foster follow up discussion around the themes developed at the conference for example, regarding the operational implications for the World Bank of the issues raised at the conference. I expect the participants too will take some of the insights from the conference on board in their own work. All the papers from the conference are available on the website, <http://www.worldbank.org/uifconference/>, and we plan to publish a book based on the conference.

*IADF: What is the level of World Bank lending for urban development?*

PCA: The World Bank finances a number of urban projects in all regions, and our lending for urban development is growing—to about \$2 billion this fiscal year. Precisely what kind of support is provided depends on the specific conditions in the countries, the strength of the financial system, the borrowing headroom in cities, the policy environment, and of course, the specific investment needs in cities.

**SPOTLIGHT:**  
**UK Public Works Loan Board**

[<http://www.pwlb.gov.uk/>]

By Sophie Guiny

Name	Public Works Loan Board (PWLB)
Location	London, UK
Year founded	1817
Legal status	Statutory body operating within the UK Debt Management Office, an executive agency of HM Treasury.
Main sectors of lending	Local authorities
Name of the Chairman	Mr. John Parkes
Staff	Six

**Background**

The Public Works Loan Board (PWLB) is a non-Ministerial and unpaid statutory body which originated in 1793 and received permanent status in 1817. In July 2002 the Board merged with the United Kingdom Debt Management Office (DMO), an executive agency of HM Treasury, and the Board is now a unit of the DMO. PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

The PWLB is governed by Commissioners appointed by the Crown to hold office for four years. There are a maximum of twelve Commissioners; three Commissioners retire each year on 1 April but are eligible for reappointment. The Commissioners are responsible for advancing loans and collecting the repayments. Rates of interest are determined by HM Treasury, and the Board's accounts are audited by the Comptroller and Auditor General, whose reports are then examined by Parliament.

There are six people including a Secretary and Assistant Secretary to the Board, who are all members of staff of the DMO, responsible for carrying out the functions of the PWLB.

**Financial structure**

The loans advanced by the PWLB are provided by Act of Parliament under section 4(1) of the National Loans Act 1968. Its source of funds is central Government's own borrowings raised through the issuing of Government stock, called 'gilts'.

At 31 March 2004, the balance of principal outstanding from borrowers, together with loans committed but not yet advanced, was £41.3 billion (\$79.5 billion); in 2003 it was £44.6 billion (\$85.6 billion). In 2003-2004, the PWLB advanced a total of £4.6 billion (\$8.85 billion). Since its creation in 1817, the Board has lent £156.7 billion (\$301.72 billion).

However in 2003-2004, the Board was a net receiver, for the third successive year, as repayments amounted to a record £7.9 billion (\$15.2 billion). This was due mostly to early repayments funded by receipts from large-scale transfers of publicly owned housing, and to money market institutions' ability to provide alternatives to long-term PWLB borrowing in the form of Lender's Option/Borrower's Option loans (LOBO's -these instruments have a fixed initial term, typically one to five years, after which the lender can decide at pre-determined intervals to adjust the rate on the loan).

**Terms of lending**

The PWLB lends to local authorities of England, Scotland and Wales. Local authorities include counties, districts, boroughs, local government areas in Scotland, passenger transport authorities, police and fire authorities, and any other authority having power to levy tax. Parish councils in England, community councils in Wales, drainage boards and certain harbors are also eligible.

Borrowers are required to apply by telephone only to shorten the approval process. They have to comply with two general conditions: the application has to be within the local authority's borrowing powers and within relevant legislation, and the authority has to comply with the appropriate requirements of the Board's current circulars.

The PWLB is also formally required before making a loan to be satisfied that the borrower has sufficient security for its repayment, but since loans to a local authority are secured by a general statute on the authority's revenue stream, security is in fact guaranteed.

For FY 2003-2004, 671 applications for quota loans, totaling £3.5 billion (\$6.7 billion), were considered and all were approved in full. Applications for advances were received from 353 local authorities, including 184 non-principal authorities. Out of a total of 443 principal authorities, 274 did not apply to the Board during the year, compared with 299 in 2002-03. 152 principal authorities had no debt outstanding to the Board as at 31 March 2004.

Ten authorities submitted eleven applications for additional quota to refinance market debt. All were approved Advances to parishes and community councils amounted to £11.1 million (\$21.3 million) and advances to drainage boards amounted to £1.1 million (\$2.1 million). There were no advances to harbors.

The PWLB provides two types of loans:

- fixed rate loans, with a duration from 1 to 30 years
- variable rate loans, on which the rate is variable at 1,3 or 6 monthly intervals, with a duration from 1 to 10 years

Loans are made at interest rates close to the cost of Government borrowing.

The Board's fixed interest rates are determined each night by the Treasury and normally take effect from the start of business on the next working day. The Treasury reserves the right to change the rates during the day if market conditions make this necessary.

**Projects financed**

PWLB does not appraise projects. Each local authority determines its own capital projects and its own borrowing limits, having regard to a range of matters including available resources, professional guidance and government advice. Loans are not advanced against individual projects or assets but are secured on the entire revenue stream of the authority.

The Local Government Act 2003 meant the end of credit approvals, the limits that central Government set on the borrowing of each local authority. Instead, a local authority is free to borrow as much as its finance director thinks affordable having regard to professional practice and a 'prudential' code developed by the accountancy bodies

With the end of credit approvals, the PWLB's previous quota system lost its basis and was abolished. The Board's present lending policy is simply stated. It continues to be the Government's aim that the Board should be allowed to meet all of an authority's legitimate need for long-term loans. Accordingly, the Board is generally prepared to lend to an authority up to the capacity in its self-determined limit for borrowing.

## **SPOTLIGHT:** **Fonds d'Équipement Communal,** **Morocco (FEC)**

By Sophie Guiny

Name	Fonds d'Équipement Communal (FEC)
Location	Rabat, Morocco
Year founded	1959
Legal status	Public agency with financial autonomy
Main sectors of lending	Municipalities
Name of the CEO	Karim Mansouri
Staff	100

### **Background**

The Fonds d'Équipement Communal (FEC) was created in 1959 as a government agency. Until 1992 it was controlled by the Caisse de Dépôt et de Gestion, the financial arm of the Moroccan government. Since 1992 the FEC has had its own Board of Directors and financial autonomy. In 1996 it obtained the status of a bank so it has a broader range of financial instruments. The FEC now follows commercial banks' practices, for example it introduced an audit committee in 2003.

The FEC's primary mission is to finance local investment projects, coming both from municipalities and from local public service providers (such as water or power supply companies). The FEC gives loans and acts as a bank for local authorities. It also provides them with technical assistance, financial advice and follow-up services for projects. Together with international partners the FEC also takes part in national investment strategies especially for rural areas. These projects include building power lines and schools.

The FEC has an eighteen-member Board; seven members represent Ministries, seven municipalities and the last two members are the Director of the Al-Maghrib Bank and the Director of the Caisse de Dépôt. The Board approves financial statements, the budget and activities of the Fund.

The FEC has a staff of 100 employees.

### **Financial structure**

The FEC's financial resources come both from the domestic and the international capital markets. 46.8% of its funds come from international financial institutions' loans; these institutions include the World Bank, USAID, the European Investment Bank and KfW. The FEC has also received loans from Moroccan banks. The FEC issues bonds and deposit certificates on the Moroccan financial market. In 2003 the FEC had a total capital of \$440 million.

In 2004 the FEC approved 86 loans for a total of almost 1 billion Moroccan dirhams (\$117 million). In total since its creation the FEC has lent 5.4 billion dirhams (\$630 million). The FEC is a profitable institution; in 2004 it has generated a profit of 170 million dirhams (\$20 million).

### **Terms of lending**

The FEC gives loans to Moroccan municipalities for projects in specific sectors. These sectors are drinking water, water sanitation, power, solid waste, urban transportation, specialized equipment (slaughterhouses, shopping malls, public lighting, recreational centers, etc.), municipal roads, urban and rural civil engineering works, and local development planning studies.

Criteria to get a loan are:

- The debt ratio of the local authority must be below 40% of total ordinary resources.
- The borrowing local authority must have enough cash flow to reimburse the loan.
- 20% co-financing by the borrower is usually required, although 100% FEC-financing is possible for power or water supply projects undertaken by a rural community.
- The project must be technically feasible, and socially and economically justified. Proposed projects must significantly contribute to social development and improve the population living standard by enhancing local infrastructure. Projects are evaluated both technically and economically by FEC's project teams before the loan is actually given.
- The borrower must be able to manage the project; if not it must hire a contractor to make sure the project is completed
- The project must not have any adverse impact on the environment

Loans are given for a minimum of 2 years and a maximum of 15 years, with a possible grace period of maximum 2 years. The maturity depends on the capacities of the local authority to reimburse the loan. Interest rates are either fixed or variable. Currently the average interest rate is 8%.

60% of the loans go to urban projects, 29% to rural projects and 11% to equipment projects. 65.9% of the loans go to urban municipalities, 28.1% to rural municipalities and 12% to regions and prefectures. Financing from the FEC represents between 20 and 25% of local authorities' investments.

The ratio of non-performing loans is at 11.83%, but no guarantee is demanded of the local entities. The loans of the FEC on the Moroccan market are not guaranteed by the state.

The FEC finances a wide variety of projects such as:

- An expressway between Agadir and Taroudant, in Southern Morocco; the total cost of the project was 394 million dirhams (\$46 million); FEC's contribution was 76.8 million, the region financed 42.6 million and 274.6 million were provided by the Ministry of Equipment.
- A road rehabilitation project in Casablanca; the total cost was 387.5 million dirhams (\$45 million), 310 million for the FEC and 77.5 million for the city of Casablanca
- Construction of a sport center in Fes; the total cost was 290 million dirhams (\$34 million), 112 million were financed by the FEC, 178 million by the city of Fes.

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