

IADF BULLETIN



FINANCING LOCAL GOVERNMENT

Volume 1, Issue 6

August 2004

The Second International Conference on Financing Municipalities and Sub-National Governments Approaches!

The Conference agenda is almost complete, and as of now it stands to be a very impressive and important gathering of distinguished guests. Confirmed speakers include Enrique Iglesias, President of the Inter-American Development Bank; Joaquim Levy, Secretary of Treasury of Brazil; Juanita Amatong, Secretary of Finance of the Philippines; and many others.

As we prepare for this exciting and important event, I would like to take this opportunity to answer some common questions regarding the Conference.

Commonly asked questions about the upcoming conference:

1. What should I do about the hotel?

The conference hotel is the Doubletree Hotel Crystal City (Phone: 703-416-4100), which is located right across the Potomac River (and 14th Street Bridge) from Downtown Washington, DC, next to the Pentagon. It is generally regarded as one of the best hotels in a prime location, between National Airport and Downtown DC, and is also on the Metrorail Blue and Yellow lines. We have reserved a room block there, which offers a reduced rate during the Conference. The opening reception will be held there Wednesday night. We will also offer a shuttle service from the Doubletree directly to the IADB building in time for the first days' sessions, and back to the hotel after the day's sessions. So, we do recommend that if you are coming in from out-of-town, that you stay at the Doubletree.

2. Who is sponsoring the Conference?

The Conference is being organized by the Global Development Alliance for Water, consisting of the IADF, World Bank, IADB, USAID, and IPWA. Further participant assistance is being given by the Public-Private Infrastructure Advisory Facility.

We are also very pleased to announce that Citigroup has become a Platinum Sponsor, Standard and Poors and Dexia

are Gold Sponsors, and Orrick, Herrington & Sutcliffe LLP will sponsor the opening day's breakfast. We are delighted that each of these companies are supporting the upcoming Conference.

3. How many participants are expected at this year's event?

About 150-200.

4. How do I register?

Download the Registration Form from our website, www.developmentfunds.org, and send it to us by email (stthomas@developmentfunds.org) or by fax (202-362-7692).

The Registration fee is payable by wire transfer or by check. Instructions for each are included on the second page of the Registration form.

We do recommend you make hotel reservations and visa preparations soon- time is rapidly running out for both!

5. Is there anything going on the Saturday following the Conference?

The New York State Environmental Facilities Commission has generously agreed to co-host a special additional training session on Saturday morning, October 2, at the Conference hotel from 9:30-12:30 PM. A description of the event can be found at the end of the Conference Agenda. This special session is a free bonus for Conference attendees willing to stay to Saturday.

6. Who can I contact with questions, problems or suggestions?

Feel free to contact me at stthomas@developmentfunds.org or by phone at 202-966-0587.

We look forward to convening the global municipal infrastructure development community in Washington DC for this year's conference event!

Steven G. Thomas, Executive Director, IADF

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Sign up now for the Fall Conference!

Sign up now for the **SECOND INTERNATIONAL CONFERENCE ON FINANCING MUNICIPALITIES & SUB-NATIONAL GOVERNMENTS**, held in Washington, DC this September 30 and October 1, 2004!

The conference is co-sponsored by IADF, USAID, World Bank, IADB, IPWA, and PPIAF.

Corporate Sponsors include Citigroup, Standard & Poors, Dexia, and Orrick.

www.developmentfunds.org/programs.htm

NEWS DESK

-Compiled by Laura Robinson

Africa Legislators Seek Power to Reject Loan Deals

www.worldbank.org
August 25, 2004

African parliamentarians want powers to endorse or reject loans from international lenders as a means to manage spiraling foreign debt, legislators from the Southern African Development Community (SADC) said on Wednesday. African parliamentarians had little say in negotiations for external loans and too much power was vested in the finance ministries of many African countries, legislators from the 14-member bloc said after a two-day meeting in Zimbabwe.

Endowed with vast resources but home to many of the world's poor, Africa is saddled with about \$330 billion in external debts and spends \$15 billion annually on debt servicing. Edith Nawaki, a Zambian legislator and former finance minister, told journalists the SADC parliamentary forum would lobby governments for legislative and constitutional changes to allow legislators greater say in foreign debt negotiations, through various standing committees in parliament. A survey conducted in five sub-Saharan countries had shown that external loan commitments had left most nations impoverished with most people barely living on a dollar a day, the legislators said. The fact that most loan agreements were not open to scrutiny had opened up cases of corruption by leaders and government officials, Lesotho legislator Hlalele Motaung said.

The legislators and participants from civic organizations said there was an imbalance in relationships between African governments and lenders such as the International Monetary Fund (IMF) and the World Bank. Loans extended to African governments had not eradicated poverty, they said, adding that these institutions should cancel the huge debts accrued by governments on the continent.

Thailand Raises Interest Rate to Bolster Baht

www.ft.com
August 25, 2004

Thailand's central bank raised its key repurchase rate by 25 basis points on Wednesday, a long-awaited move expected to bolster the baht after the sharp oil price rises. The rate increase - the first by Thailand's central bank since June 2003 - will bring the key repo rate to 1.50 per cent, still extremely low by historic standards.

Until recently, Thailand's key policy rate was 25 basis points higher than US interest rates. But two recent interest rate rises by Washington left Thai rates 25 basis points behind the US, which coincided with a slight weakening in the Thai baht. Andrew Maule, head of research of ABN-Amro, said that narrowing the gap between US and Thai rates will help "keep some equilibrium of capital flows", strengthening the baht and helping to check rising energy costs.

Loan Targets Brazil Environment

www.bbcnews.com
August 25, 2004

Brazil is to get a \$1.2bn (£0.67bn) loan from the World Bank over four years to help protect its environment. The bank says it is the largest single loan given to protect a country's environment, with an initial payment being made this year of \$505m. The cash is to ensure Brazil, thought to have the greatest biodiversity on earth, considers environmental issues and management in government policies.

The money will be used to hire more environmental experts to quicken the process of licensing projects, including offshore oil rigs and hydro-electric plants. The country will have 17 years to pay back the loan at an interest rate of 4.9%.

China's Economy Still at Risk

www.bbcnews.com
August 25, 2004

China's leaders should not relax their efforts to cool the country's fast-growing economy, the International Monetary Fund has warned. The IMF's latest health check on China's booming but unbalanced economy found that "a soft landing...is not yet assured". It urged China to introduce a more flexible exchange rate without delay. The IMF now expects China to grow 9% in 2004, beating an earlier forecast of 8.5%, before cooling to 7.5% in 2005.

The IMF found signs that Beijing's efforts to curb reckless lending for expansion projects by its undisciplined banking system are paying off, but it remains concerned that China's rapid growth could still tip over into a damaging crisis if pressure on the banks is not maintained.

Beijing has issued a blizzard of edicts warning of tougher scrutiny of bank lending, freezes on loans for new factories in over-supplied sectors like steel, and penalties for officials who ignore these guidelines. The IMF warned of the limitations of political pressure as a method of regulating the economy, pointing out that

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"if the administrative controls become less effective, credit growth could take off again".

INTERVIEWS

Interview with William Streeter

**Managing Director, Head of International Public Finance
Japan & Asia Pacific
Fitch Ratings**

By Steven Medlock

IADF: *What is your exact title and responsibility at Fitch?*

WS: Managing Director, Head of International Public Finance, Japan & Asia Pacific

IADF: *How did you get interested in municipal ratings?*

WS: My interest in municipal finance began with some urban studies courses when I studied political science in undergraduate school. Ironically, I became interested in political science because of the Watergate affair. I went on to study City & Regional Planning in graduate school, believing that governmental action and creativity was shifting from the national government level to the local government level. That belief was crystallized for me with my first job out of school as a budget analyst for the City of San Antonio. I eventually joined the ratings business, because it allowed me to study urban dynamics from a bird's eye view, without belonging to any one governmental organization. This experience, which has now lasted for over 20 years, has been a continuous treat.

IADF: *Which are some of the developing countries that are doing a good job in reforming municipal finance?*

WS: On one level, it is easy to look how far municipal finance has evolved within the U.S. and have a negative viewpoint about the progression of municipal finance in other parts of the world. My personal viewpoint is that while cities and states have been around for a long time in many parts of the world, they are only beginning to act as financially autonomous and accountable entities. Unlike the U.S., which evolved intergovernmental relations and debt issuance patterns over a long period of time, in much of the rest of the world, these processes are taking place within a few short years. Local administrations and local investors are usually unprepared for the scope of these changes. Nevertheless, you see some limited but significant successes, such as with state government reforms in Sao Paulo, Brazil; or with municipal reforms in Mexico or in Tamil Nadu, India.

IADF: *What does Fitch look at when giving a municipal rating?*

WS: The key considerations that we look at when giving a municipal debt rating are:

- the institutional and administrative framework (with the goal of assessing the organizational capability, experience and autonomy of the local government to meet its financial obligations)
- the economic and social profile (with the goal of assessing the revenue generating capacity of the economic base to pay a local government's financial obligations)

- the financial performance and position (with the goal of assessing the financial capability of meeting both existing and prospective financial obligations)
- the debt position and investment needs (with the goal of assessing the extent to which taxable resources are leveraged against existing and prospective debt obligations)
- the management policies and practices (with the goal of assessing the capacity of management to live within its means, plan and allocate for future contingencies, and respond to unexpected circumstances)

It is important to mention that all of these considerations are analyzed with respect to ability and willingness to repay debt. This is because ratings apply to debt obligations. Fitch does not opine on the soundness or direction of public policy in general, but does opine on how public policy decisions can affect a local government's ability or willingness to repay its debt.

IADF: *What do you think of the Tamil Nadu Urban Development Fund and their Pooled bond issue for water?*

WS: Although the initial Tamil Nadu pooled water project bond was insignificant in terms of liquidity to the Indian capital market, it was monumental in terms of structuring bonds for local government infrastructure. The concept of achieving a higher credit quality by pooling project risk, and of collateralizing the structure with a reserve fund achieved a number of important objectives for local governments - a potentially sustainable supply of financing, lower borrowing costs, and longer bond maturities than would have been possible had each municipality tried to borrow on its own. It represented a nice mix of public-public and public-private partnerships between the state, the municipalities and the financial market.

IADF: *Is this something that other countries should consider?*

WS: This model is very useful for infrastructure finance within the emerging markets, since it recognizes that municipal accountability and financial transparency, as well as state municipal laws and regulations are all works in progress. It employs layers of credit enhancements, such as the initial contractual payment from the municipality, the debt service reserve, the ability to intercept state aid, and the partial USAID guarantee in order to enhance the bond's security and appeal to the Indian bond market. It stands as a clear role model for infrastructure finance within the emerging markets, but it also needs further refinements before being applied across India. For instance, statutory authorization for the fund and debt issuance through a master indenture would make the program even more viable as a role model.

IADF: *Why shouldn't municipalities just borrow from banks?*

WS: In some markets, such as in Europe, commercial bank lending is attractively priced and long term loans are available for infrastructure. In these cases, bank lending is very useful for municipalities. In most markets, however, the pace of decentralization efforts and revisions in bank capitalization requirements have greatly restricted the availability of bank capital for infrastructure projects. Municipal over dependence upon lending from the national development bank, as an alternative to commercial bank lending, has resulted in an unfortunate deferral of capital investments. This is why many municipalities are looking toward financial sector reforms and improvements to their own budgeting, auditing and management practices, so that they can enter their local capital market. For their part, many local capital markets are looking for portfolio diversity and investments of longer tenure. Creative financiers will determine how best to match this supply and demand for infrastructure debt.

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IADF: *What role do you see for the aid institutions and the multilateral development banks?*

WS: In the past, multilateral institutions provided direct loans and syndicated loans for individual infrastructure projects, most often, for international investors. This was not a very efficient use of their capital, and many of these structures did not survive international turmoil, such as Argentina's economic and financial downturn. Recent directions by multi-lateral institutions are encouraging. Their efforts to provide credit enhancement for domestic market transactions have a better shot at creating a sustainable supply of financing for infrastructure. The way to improve further upon these efforts is to also migrate away from single project financing, and toward pooled financing structures. The state revolving funds in the U.S. are classic models for this type of financing.

Interview with Jose Brakarz Sustainable Development Department Inter-American Development Bank

By Steven Medlock

IADF: *Can you tell us what countries the IADB is working with on municipal development funds and the types of approaches you use?*

JB: We are working with many countries, but from memory I can recall at least 7. There are three types of mechanisms for funding local governments that we employ: the ones that are market oriented and provide credit, the hybrid ones, that are partly lending mechanisms and partly transfer subsidies, and the funds that use only subsidies – which means they are just transfer mechanisms from the central government to municipalities. As examples, I can mention two recent operations in Brazil involving transfer funds, which were employed due to the restrictions in the Brazilian legislation concerning municipal credit. In these cases the most important value added is the incentives for fiscal responsibility, implied in the conditions attached to the projects. In the case of Bolivia we have a hybrid loan/transfer mechanism. In Central America there are no credit funds yet, only transfer funds. We are working on municipal finance in many of these countries as well, developing the preconditions for municipal credit markets.

IADF: *Which are the most successful institutions that the IADB supported?*

JB: It is hard to point out a single best case. The ones that definitely deserve praise are Banobras, which is a very serious institutional body, with a great number of credit and lending operations in several sectors; Findeter, which has been through some ups and downs but it is very important operation. And of course, we can not forget Paranaicade, in Brazil. These can be pointed as perhaps the best performing entities we have worked with.

IADF: *What makes those institutions effective?*

JB: Well I would say it depends on external and internal factors. The internal factors have to do with their institutional capacity, the institutional building process. Additionally, the more they are independent, free of political interference, more self-reliant and managed professionally, the better they perform. The more they take seriously the issue of risks in their operations, the less depend on a governmental intercept, the more they will fare. Their technical capability in terms of project analysis is also a critical factor. Managerial autonomy is important: if a lending institution

is insulated from political interference, it will be a more responsible institution, pretty much by definition. The other external factors have to do with the fiscal environment where they are operating: if the country has a tough legislation concerning local government indebtedness, which puts limits on their ability to take loans, and the more this legislation is enforced the more successful and sustainable will be the municipal credit institutions. Of course, we're talking about Latin America; in more developed areas the market does this job.

IADF: *What kind of legal and regulatory environment should the governments hosting these institutions promote?*

JB: Impose hard budget constraints on municipal indebtedness and avoid as much as possible the bail outs when they enter into debt. If they do expect this then they can manage. In case after case central governments have stepped in to rescue either the funds or the indebted municipalities. Of course the municipalities argue that their financial problems are a result of fiscal imbalances, of excess responsibilities compared to their available resources. The recent trend that we see in Latin America is for central governments to issue strict legislation limiting the amount of debt that municipalities can take upon themselves which has been very effective in terms of creating a positive environment for local credit.

IADF: *Are there any future projects the Bank is working on for local development financing?*

JB: Yes. There are several initiatives in different stages of preparation: we are working with in Mexico, Ecuador, Perú and other promising countries. Ecuador, have been maintaining a stable macro-economic environment which is a precondition for such operations. Perú has also a large municipal sector which requires a lot of support. These are only a few examples.

IADF: *Which domestic capital markets in Latin America are better suited to financing local government?*

JB: The question has to do with macroeconomic stability. I would say off hand that Chile, Mexico, Panamá, Brazil, and Colombia are countries with some of the best conditions. If you asked me a few years ago, I would include Argentina in this list but today its banking sector is still recovering from the financial crisis of 2001. So their internal market for lending and for bond issues is today basically nonexistent.

IADF: *What makes these situations more ideal for this type of finance?*

JB: The first things you have to look are the macro-economic conditions and the currency stability, which are the preconditions for any market to flourish. When I mentioned Chile for example, it is a country with fifteen or twenty years of solid financial management and it's been showing consistent results as far as creating an internal financial market – the pension funds are a significant player in this market - and their currency is very stable. These factors favor their international credit rating and lowers their internal interest rates – which in turn favor lending operations with local governments. So, I would say that these are the underlying factor. In addition to that, the institutional framework in which the municipalities operate has to allow for them to develop into creditworthy entities. That calls for more decentralization, for legislation that favors autonomy and responsibility for the local governments. Among the countries that have moved along the furthest in decentralization in Latin America, and I'm speaking about the federal countries, definitely Brazil, Colombia and Argentina have moved a long way. The later mostly at the state level – municipal autonomy varies widely from state to state. Mexico is moving ahead, but still local governments there have not

not achieved the degree of autonomy in other big countries in the region, due mostly to their tradition of a strong state government rather than strong municipal governance, which you find in Brazil for example.

IADF: *How will these municipal financing institutions eventually fit into a market structure?*

JB: In the countries that are more advanced, what we expect to happen first is for the capital markets to be mature enough to absorb the municipalities and state's financing demand. From the the borrows in this market you need to establish incentives for the municipalities' good fiscal management. As an example of how this can be done is Mexico where in order to obtain a loan from Banobras the states and municipalities have to undergo a credit rating process by a specialized private institution. This has provided a strong market incentive for them to demonstrate a track record in financial management, which is good for obtaining loans from the state bank as well as from private banks. This is definitely the way of bringing fresh resources into local government lending, to make the market believe that they have creditworthy institutions. How do you build confidence amongst the private banking sector? It's a process. [The Banobras model] is a very interesting model, it's been already in operation for four years, and a large number of municipalities and states have gone through the process and the information is public. Therefore, Banobras, is basically assuming this role of promoter of a market for local government loans, by sponsoring and promoting these credit rating exercises. In the Paracidade case the institution is very open about its municipal financing operations, and has its own way of comparing the fiscal performance of different municipalities among themselves. I would say, though, in the case of Paracidade, that the access to the private credit market has not happened yet, mostly due to the country's macro-economic conditions - the high interest rates and the lack of funding instruments for long term financing.

SPOTLIGHT:

Georgia Environmental Facilities Authority (GEFA)

-Laura Robinson

Location	Atlanta, Georgia
Date Founded	1983
Legal Status	State Agency
Total Lending Since Founding	\$1,348,962,035 to 969 projects
Main Sectors of Lending	Water, sewer and solid waste system improvements
Executive Director	Paul Burks
Staff	22

Mission

GEFA's mission is to provide funding and services to local governments and non-profit organizations. GEFA's mission statement is: "The Georgia Environmental Facilities Authority will responsibly and responsibly provide environmental and energy efficiency financing, coordination and education to governmental units and non-profit organizations so that they can use available resources in an environmentally sensitive manner for all Georgians."

Responsibilities

To provide low interest water and sewer loans to Georgia's local governments.

Ownership, Structure and Operation

An eleven member Board of Directors, eight of whom are appointed by the Governor and three who serve as ex-officio members, oversees GEFA.

Funding

GEFA uses a combination of state, federal, and private monies to fund its programs.

Programs

Examples of GEFA programs include:

Georgia Fund

Loans through this state bond-funded program finance all types of water and sewer projects including water and sewer lines, treatment plants, pumping stations, and water storage tanks.

Lending Terms:

The interest rate is set at the rate of the most recent sale of state general obligation bonds. The loan maximum is \$3 million per year and the maximum repayment period is 20 years. No application fee or closing fee is charged on loans made with state funds.

Clean Water State Revolving Loan Fund (CWSRF) Summary

The Clean Water State Revolving Loan Fund (CWSRF) is a Federal fund administered by the Georgia Environmental Facilities Authority (GEFA) for waste water projects. Eligible projects include a wide variety of water quality and wastewater treatment projects, such as:

- constructing new wastewater treatment plants;
- expanding wastewater treatment plants;
- installing sewer lines and sewer rehabilitation projects;
- correcting infiltration/inflow problems and/or combined sewer overflow (CSO) problems;
- constructing and rehabilitating municipal storm sewer systems;
- purchasing street and storm sewer cleaning equipment;
- acquisition of buffer zones and/or wetlands; and
- constructing storm water control structures such as detention and retention ponds (particularly on a regional basis), and restoring streambanks.

Lending Terms

This program offers a fixed interest rate of 3%. A 2% closing fee is charged on the amount borrowed, and is paid at the project completion. The program also pays for reasonable engineering, planning and design, and construction and contingencies costs as they are incurred. The maximum term is 20 years or the design life of the project, whichever is shorter.

Drinking Water State Revolving Loan Fund (DWSRF) Summary

The Drinking Water State Revolving Loan Fund (DWSRF) is a Federal fund administered by the Georgia Environmental Facilities Authority (GEFA) for drinking water projects. Eligible projects include a wide variety of public health related water supply projects, such as:

- Implementation of security measures such as fencing, surveillance equipment, backflow prevention devices, and enhanced filtration/disinfection treatment;
- Maintaining compliance with existing or proposed standards and regulations;
- Rehabilitating or replacing aging infrastructure;

- Rehabilitating or developing sources to replace contaminated sources of drinking water, including replacing contaminated private wells with public water supply;
- Installing or upgrading treatment facilities to improve drinking water quality;
- Installing or upgrading storage facilities to prevent microbiological contaminants from entering the system; and,
- Installing or replacing transmission and distribution pipes to prevent contamination.

Lending Terms

This program offers a low 3% interest rate. It can also offer subsidized loans where up to \$500,000 per community is exempt from repayment.

Solid Waste Facility Financing

GEFA offers low interest loans of up to \$1 million for solid waste capital projects that serve local governments. Also, to help minimize their waste streams, cities and counties can purchase facilities and equipment for new recycling or waste reduction programs through GEFA recycling and waste reduction grant funds.

GEFA / ENERGY

The GEFA Division of Energy Resources is the primary agency for energy programs, grants, and educational materials. GEFA annually assists thousands of citizens throughout the state through a broad array of programs ranging from Home Energy Clinics for the residential sector and the installation of weatherization materials in low income homes to assisting fleets to use clean alternative fuels.

The Bank also participates actively in the realization of state policy in the field of financing municipal development, housing construction and reconstruction, and financing of infrastructure-oriented projects (construction of main roads, water sector schemes).

Municipal Finance Company (MUFIS)

The Municipal Finance Company, j.s.c., (MUFIS) was founded as an affiliated company of the Czech-Moravian Guarantee and Development Bank in 1994. The bank owns 49 % share of MUFIS, the other shareholders are the Ministry of Finance (49 %) and the Union of Towns and Communities of the Czech Republic (2 %).

MUFIS was founded to administer funds obtained as a result of the Program Agreement signed between the governments of the Czech Republic and the United States with the aim to introduce the Housing Guarantee Program (HGP) in the Czech Republic. The HGP belongs to successful US governmental assistance projects brought into many countries worldwide. In the Czech Republic it has been implemented as the Program of Municipal Infrastructure Finance. Its main objective has been to stimulate the Czech banking system to provide long-term loans at acceptable rates, aimed at supporting the development of technical infrastructure in Czech towns and communities.

MUFIS Objectives

According to the Program Agreement, MUFIS acts as the official borrower and, using guarantees from both governments, borrows capital from private investors in the US. MUFIS lends the funds thus obtained to cooperating commercial banks, which are contractually bound to use them for providing favorable long-term credits to municipalities in order to finance their infrastructure projects in accordance with pre-set program guidelines.

Through this credit line, loans in excess of 1.4 billion CZK (some USD 45 million) have been provided to 112 municipalities to finance 122 housing related projects. The program funds have been primarily used to finance construction of natural gas pipelines and a transition to gas-fired space heating boilers, construction of water mains, sewerage systems and wastewater treatment plants. Realization of most projects has also contributed to improvement of the environment of municipalities.

Loan Eligibility

Beneficiaries of loans granted through the MUFIS program may be individual municipalities in the Czech Republic or their associations as well as municipal utilities (legal entities) that operate the infrastructure in a given area, provided that the municipality is their founder and owns a majority stake of such company.

Lending Terms

Individual credits in amounts up to 100 million CZK may be granted from the program funds. Their maturity till 15 years is acceptable; a grace period may be agreed. Program rules require the interest rate to be fixed during the entire life of the loan. The Program does not preclude the funds thus obtained from being combined with other forms of private or state support or subsidy.

Eligible Loan-Funded Projects

MUFIS program funds may be used for granting credits to finance the following kinds of housing related projects:

- Construction and reconstruction of technical infrastructure networks, including preparation of lands for building of housing areas (pipelines of gas installation, water distribution, sewer collection, electrification);
- Construction and reconstruction of sewer systems, waste water treatment plants, solid waste landfills;

Czech-Moravian Guarantee and Development Bank (CMZRB)

-Laura Robinson

Location	Czech Republic
Year founded	1992
Legal Status	Joint Stock Company
Chairman of the CMZRB Board of Directors	Ladislav Macka
Chairman of MUFIS Supervisory Board	Josef Vanfk
Municipalities served	112
Registered Capital	CZK 1,975,800,000.00
Main sectors of lending	Local Government Infrastructure
Staff (approximately)	255

CMZRB Objectives:

CMZRB is the only development bank in the Czech Republic entrusted with the mission to facilitate the implementation of the government nation-wide economic strategy, as well as the regional policy related to economic sectors, which require the support of public finance. According to this mission, the main business of the Bank consists of providing assistance to small and medium sized enterprises (SME) with the aim to help them gain access to financial capital and to share their business risk. The assistance to support SME development is implemented through a scheme of bank guarantees, preferential loans and specific subsidy programs.

- Improvement or conversion of space-heating systems, large-scale transition for gas-fired central heating, incl. installation of corresponding control devices, thermal insulation of municipal residential houses aimed at reducing energy consumption;
- Construction and refurbishment of rental apartments owned by municipalities, regeneration of housing estates (blocks of flats built by large-panel technology);
- Construction of municipal residential homes with nursing care to help seniors and disabled citizens;
- Construction or improvement of smaller roads and public transport infrastructure inside residential areas;
- Other eligible projects related to the improvement of municipal housing and its environment.

Procedure to Apply for MUFIS Funds

Municipalities (or the aforementioned entities) submit their applications for credits aimed at financing eligible projects to cooperating commercial banks and subsequently negotiate the fundamental terms and conditions of the loan contract with them. The relevant project along with the corresponding technical documentation, including a valid building permit, and also analyses of return in accordance with the requirements of the bank shall be included in the application.

The bank assesses the project according to its criteria and if it considers the client creditworthy, the bank then asks MUFIS for a transfer of relevant program funds to cover the pledged loan for project financing. MUFIS reviews the project for its compliance with specified program conditions. If there is no irregularity, MUFIS informs the bank about the approval within a short time and a standard loan contract between the bank and the applicant may be concluded. After submitting the copy of the relevant loan contract to MUFIS the bank receives the transfer of required funds within a week.

Supervision

A Board of Directors supervises the operations of the CMZRB.

Organizational Structure

CMZRB is comprised of six organizational units (headquarters + branches) including the Support and Strategy Division, Financial Services Division, Economic Division, Commercial Division and the Administration and Operations Division. CMZRB has approximately 255 employees.

Projects

Brief summary of CMZRB's main activities in 2004:

1) Assistance to small and medium-sized enterprises granted in form of:

- bank guarantees
- preferential loans
- grants and contributions

2) Housing and infrastructure projects support provided within:

- PANEL Program- (Facilitating the financing of repairs, reconstruction or refurbishment of apartment houses built by means of the large-panel technology (panel-block houses) through preferential conditions enabling the entrepreneurs an easier access to loans provided by banks or building societies)
- Housing Guaranty Programme, administered through the affiliated MUFIS company.

3) Investment banking and financial services

- time deposits
- miscellaneous banking services.

We invite submissions of comments, news items, and suggestions for future articles.

Please do not hesitate to contact us, your input is valued as we develop our newsletter.

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Newsletter questions?
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International Association of Development Funds

Chairman...Lubomir Ficinski
President...Anthony Pellegrini
Executive Director....Steven Thomas

Staff:
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