

IADF BULLETIN



FINANCING LOCAL GOVERNMENT

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Financing Local Government in 2005

by Steve Thomas, Executive Director, IADF

Following a successful and busy 2004, IADF is working on several programs for 2005, for which we welcome submissions and involvement from the Local Government finance community.

IADF has relaunched its website in late December, and the new design allows us to expand several sections of worth to the community, particularly our **Publications** library. We welcome publication submissions or links that we may include in our library, which is rapidly growing, especially with the addition of the submissions for our 2004 International Conference on Financing Municipalities and Sub-National Governments. We currently have over 150 publications on Local Government finance accessible through our website, and are working toward building it into a one-stop source of information on the topic.

We are also always looking to add **links** to our site. We have expanded our links page, and would be happy to trade links with anyone's website whose organization has relevance to infrastructure or Local Government finance.

Very importantly, if your local government finance institution is not among those in our **database**, please take the time to fill out one of our information request forms so that we may include your institution. The IADF Fund Database is a very unique, comprehensive way to benchmark your institution against others around the world and offers some free publicity, as well as links to your website and contact information for your institution. **Information Request Forms** are available on our website.

Finally, we are always looking to update our website and newsletter with current goings-on and newsworthy items in the world of local government finance. We welcome all news submissions, large and small, for inclusion in our **News Items** pages.

These are but a few of the exciting and useful programs we are planning for 2005. We always welcome comments or submissions, which can be sent to info@developmentfunds.org. The IADF looks forward to working with everyone for a productive 2005.

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. Submissions and can be sent to info@developmentfunds.org.

NEWS DESK

-Compiled by Alexis Rodriquez and Nina D'Arcangelo

Development Bank of South Africa (DBSA) lends a helping hand to flood victims in KwaZulu-Natal Midlands Municipalities to receive R1,4 million emergency relief aid Durban , South Africa, January 11, 2005
www.dbsa.org

The Development Bank of Southern Africa (DBSA) will on January 12, 2005, handover a cheque of R1 400 000 for relief aid to communities in the KwaZulu-Natal Midlands region that were victims of recent floods. Heavy rains destroyed homes, bridges, roads, clinics, schools and other infrastructure, and displaced almost 20 000 people in the municipalities of Msunduzi, uMgungundlovu and uMzinyathi.

Luther Mashaba, DBSA Executive Manager: SA Operations, says the Bank will work hand-in-hand with the three municipalities and the KZN provincial government in providing emergency relief to affected communities.

“The DBSA, as a key development partner to the municipalities, has proactively engaged these municipalities to help bring relief to affected communities. We will also continue to engage the provincial government on disaster management planning to enable a more capacitated provincial response in the future,” says Mashaba.

This is not the first time that the Bank will be helping disaster-stricken communities in the province. In November last year it provided assistance to Uthungulu and Umkhanyakude district municipalities in KwaZulu-Natal with about R500 000 after heavy rains also caused major damages.

DBSA KZN Regional Manager James Ndlovu says the funds provided by the DBSA will be used to buy tents, blankets and mattresses for the displaced families, as well as to finance the emergency rehabilitation and repair of damaged infrastructure. He also says the municipalities will be expected to provide the Bank with progress reports on their disaster relief programmes, which will be used as a basis for the identification of further support initiatives in these areas in respect of infrastructure provision.

Mashaba will hand over the R1 400 000 cheque to mayors of the three municipalities at a ceremony to be held in Durban at which the KZN MEC for Local Government, Housing and Traditional Affairs, Mike Mabuyakulu, is expected to be the keynote speaker.

The DBSA contributes to development by providing finance and expertise to improve the quality of life of the people of southern Africa, mainly through the provision of infrastructure.

Bank Nederlandse Gemeenten (BNG) EUR bond issue
The Hague, 25 January 2005
www.bng.nl

BNG, the Dutch Public Sector Agency, rated AAA/Aaa/AAA, has increased by EUR 250 Million the EUR 1 Billion with a coupon that is based on the French TEC10 (Taux de l'Échéance Constante à 10 ans) as published daily by the Agence France Tresor minus 100 Bps, July 25, 2020 issue, originally launched on October 25, 2004. This first increase brings the total outstanding amount to EUR 1.25 Billion.

This new tranche has an issue and re-offer price of 97.16%. Settlement date is January 31, 2005, plus 6 days accrued interest.

This tranche will be fungible with the original issue 40 days after settlement.

The issue will be listed in Luxembourg. Lead manager is Calyon.

For further information email: capital.markets@bng.nl

World Bank Approves US\$4.8 million loan to Poverty Reduction Strategy in Northern Brazil
Washington, DC, December 7, 2004
www.worldbank.org

The World Bank today approved a \$4.8 million loan to the state of Amapá, in Northern Brazil. The Amapá Sustainable Communities Project's goal is to support Amazon-specific approaches to reduce urban and rural poverty through measures that are environmentally sustainable, economically efficient and socially equitable. It will support the government's efforts to: Reduce rural poverty through better access to social services, basic infrastructure, environmentally-sound productive activities, and credit; Reduce urban poverty by focusing on economic and social development in low-income neighborhoods; Integrate socioeconomic development and environmental conservation at the local level through Municipal Development Fora; Create social capital through strengthened community organizations, capacity-building, and stakeholder participation in decision-making and responsibility for managing public resources; and Develop empowerment through training, participation of minority groups, and environmentally-sensitive decision-making.

The project will reinforce state policies designed to improve human welfare, protect the environment and decentralize decision-making. “The state of Amapá has shown good governance in many areas, including environment and natural resources management, promotion of sustainable development, and economic and fiscal management,” said Vinod Thomas, Director for Brazil and Vice President of the World Bank. “This project adds to the government's efforts of enhancing the quality of life of its inhabitants, promoting social capital and creating opportunities, particularly for the very poor in rural and urban areas.”

The project aims to benefit 198,000 citizens of Amapá living in poverty, including groups at greatest risk such as river dwellers, extractivists, female-headed households, indigenous communities, and Afro-Brazilians living in informal quilombos.

“Amapá is an interesting challenge for the Bank given the richness of its environment and the diversity of its population with many indigenous peoples groups and communities of African descendants,” said Maria-Valéria Pena, World Bank project manager.

This IBRD fixed-spread loan has a repayment period of 15 years, with a seven-year grace period.

World Bank approves US\$50 loan to improve infrastructure Services
Washington, DC, December 17, 2004
www.worldbank.org

The World Bank approved a \$50.26 million loan for Chile to increase the effective and productive use of infrastructure services in poor rural communities.

“Expanding infrastructure services into hard-to-reach, dispersed rural populations is key to ensure that all Chileans enjoy a basic standard of living and benefit from income generating opportunities that can help them rise out of poverty,” said Axel van Trotsenburg, World Bank Country Director for Argentina, Chile, Paraguay and Uruguay. “Specifically, the project will beneficiate

the half a million Chileans in rural areas who live in poverty and who in many cases lack basic services.”

The Infrastructure for Territorial Development Project aims to improve the livelihood of rural communities in the regions of Coquimbo, Maule, Bío Bío, Araucanía, and Los Lagos by improving the provision of infrastructure services, including water supply, sanitation, roads, Information Communications Technology (ICT), and electricity, in the context of participatory territorial planning.

In particular, the project will help:

- Elaborate territorial development plans with active participation of local stakeholders, and a strategic and integrated vision of infrastructure subprojects and productive potentialities;
- Upgrade about 1,000 km of existing secondary rural roads, paths, bridges and foot bridges to improve transportation accessibility;
- Rehabilitate and build water and sanitation facilities in rural communities;
- Improve quality of conventional electricity services, off-grid and renewable energy solutions, such as generators, solar panels and wind turbines;
- Enhance connectivity to the telecommunications access network for schools, municipalities, micro enterprises, health centers, and communities; and
- Finance consultant services to strengthen community-based structures for managing and sustaining the infrastructure services.

The \$50.26 million fixed-spread loan has a repayment period of 6.5 years, including 4.5 years of grace.

World Bank Approves US\$200 million to Argentina's Infrastructure
Washington, DC, December 7, 2004
www.worldbank.org

The World Bank today approved a US\$200 million loan for Argentina to improve the provision of infrastructure services in the Province of Buenos Aires.

“The provision of better infrastructure services supports the Government of Buenos Aires strategy to reactivate the province's economy and strengthen its regional competitiveness, while alleviating poverty and increasing social equity,” said Axel van Trotsenburg, World Bank Country Director for Argentina, Chile, Paraguay and Uruguay. “This Project is the Bank's first direct loan for infrastructure investments to a province in Argentina and represents a strategically important milestone in our dialogue with sub-national authorities in the country.”

The Buenos Aires Infrastructure Sustainable Investment Development Project supports key investments in the road sector to enhance the Province's productivity, high social priority projects in the water, sewerage and drainage sectors targeted towards areas of low income and high vulnerability. The project to be executed over the period 2005-2008, will improve the provision of infrastructure services in the province within a framework of fiscal responsibility as a means of supporting the return to a sustainable path of economic growth, to alleviate poverty and increase social equity. The project will support roads and water, sewerage and drainage works and help strengthen the productive potential of the economy and affect the living conditions of vulnerable and poor people.

The project will specifically:

- Rehabilitate high priority segments of the provincial road network, removing critical bottlenecks, and implementing a sustained and cost-efficient maintenance program to reduce transport costs and improve the Province's overall competitiveness. The program includes (i) rehabilitation works in high priority provincial roads along the interurban primary paved network, (ii) widening provincial roads that connect industrial zones with production and consumption centers, (iii) rehabilitation of access roads to some ports and localities and enhance intersections in high-traffic roads, and (iv) implementation of a maintenance program for provincial roads.
- Expand the provision of water and sewerage services to approximately one half million low income people living within the Greater Metropolitan Area of Buenos Aires, in areas of high sanitary and/or environmental vulnerability. Financing under this component in respect of a given operator will become available once said operator has met the relevant eligibility criteria which include a renegotiation agreement that helps ensure the sustainability in the provision of water and sewerage services.
- Finance a series of drainage projects in urban and periurban areas to mitigate the effects of flooding, which cause significant losses to poor households, industries and commercial activities by interrupting transport and other services.
- Build a strategic framework for provincial development and strengthen the institutional capacity in the public entities involved in project execution. Specifically it aims at building up a strategic framework to facilitate economic development, competitiveness, and foster employment.

“With 50% of the people lacking access to potable water and only 25% being connected to proper sewerage system, it is key to implement this loan to improve the provision of basic services and enhance living conditions in the province,” said Maria Marcela Silva, World Bank co-task manager for the project. “The project also tackles inadequate urban and drainage planning lead that generates recurring flooding problems in urban areas with high social and economic costs.”

Executive Directors discussed the general situation in Argentina and recognized the strong economic growth and progress in reducing poverty and creating employment. They emphasized the role of the overall economic policy environment, and stressed the importance of an adequate macroeconomic framework and, in this context, Argentina's program with the IMF. They also noted that while disbursements under investment operations can proceed normally, conditions for new disbursements under approved Bank adjustment operations have not been met yet.

Numerous Executive Directors expressed concerns about the lack of progress in the renegotiation process of public services contracts. They stressed that a framework for public services (I) be fair, transparent, and viable, (ii) support private sector investment and development of productive capacity by taking into consideration the cost of capital and rates of return on investment and enabling the private sector to retain decision-making over investment, (iii) support competition in each sector; and (iv) set clear and predictable rules on how tariff setting is to be determined.

Several Executive Directors also noted the need for re-engagement with creditors on mutually acceptable terms and emphasized that fair and transparent restructuring of the debt is essential to private sector development and improvements in the investment climate.

The US\$200 million single-currency, fixed spread loan has a repayment period of 12 years, including four years of grace.

IDB OFFERS EMERGENCY GRANT TO HELP GUYANA AFTER FLOODS

Washington, DC, January 19, 2005
www.iadb.org

The Inter-American Development Bank today announced it has offered Guyana a grant of up to US\$200,000 to support the government's relief efforts in the wake of recent flooding caused by the heaviest rains in more than a century. The floods have hit the capital, Georgetown, and other districts on the Atlantic coast, forcing hundreds of families from their homes and resulting in extensive damage to property. In addition to the emergency grant, the IDB and the Guyanese government are exploring the possibility of using resources from the existing portfolio – which includes soft loans for roads, bridges, electricity and water – to finance infrastructure rehabilitation work in the affected areas.

ADB approves US\$250 loan to India for Rehabilitation of infrastructure in Jammu and Kashmir, India

Manila, Philippines, 23 December 2004
www.adb.org

The Asian Development Bank (ADB) has approved a loan of US\$250 million for a Multisector Project for Infrastructure Rehabilitation in Jammu and Kashmir, India. The project is the first major intervention in the State by a multilateral aid agency in recent times. It will restore existing infrastructure facilities and services in two key infrastructure sectors, the urban and transport sectors. More specifically, the urban sector component will cover water supply and drainage systems in Srinagar and Jammu, while the transport sector component will finance the rehabilitation of roads and bridges throughout the State. The project will also support capability building of a newly established nodal agency, the Economic Reconstruction Agency, responsible for the effective management of externally funded projects in the State. Located in the northernmost part of India, the State holds great economic and business potential, having a landmark tourist destination and a successful horticultural and agricultural production industry. Besides that potential to be tapped, the overall socioeconomic environment needs improvement. The economy of the State lags far behind other similar states in India. The condition of roads has deteriorated and many bridges have been damaged. Public services such as water supply and drainage are in poor condition. There is an urgent need to restore infrastructure and services in order to improve living conditions in urban and rural areas, thus contributing to the turnaround of the state economy. Earlier this year, the Government of India requested ADB to provide financial assistance for the restoration of essential infrastructure in the State on an urgent basis as part of normal lending operations. ADB responded immediately by establishing a project team in April 2004 to initiate preparation and processing of the proposed Project. Investment needs for the rehabilitation and development of infrastructure in the State are huge, estimated to amount to more

than \$4 billion. They need to be addressed in a programmatic manner, starting from this Project, which will address the most urgently needed rehabilitation of infrastructure, together with the establishment of a necessary institutional set up for project management. Consideration also needs to be given to the provision of subsequent infrastructure projects in key sectors such as urban, road and power.

In the transportation sector, potential subprojects under the project include the rehabilitation of about 1,500 kilometers of deteriorated roads under the jurisdiction of the Public Works Department, and about 80 damaged and weak bridges, located in 14 districts. The project will boost the mobility of people in the state and pave the way for increased trade with other states, ultimately contributing to poverty reduction.

A rundown water distribution system has led to erratic service, high water losses, and poor coverage. The influx of migrants over the years to the cities of Jammu and Srinagar is also putting additional pressure on the existing water supply systems, creating health hazards. Rehabilitation of water supply systems in Srinagar and Jammu would benefit 1.5 million people. Drainage is also a major problem. Due to worn-out dewatering pumps and lack of maintenance of drains, there is large scale clogging in the cities, especially in low-lying areas. The rehabilitation of cities' drainage systems would significantly improve the level of sanitation of these two cities, benefiting 1.02 million people.

"Unless attended to now, the deterioration of the State's existing assets will get to the point where the only way forward will be their total reconstruction from scratch, which is both expensive and disruptive," says Shunso Tsukada, an ADB Principal Transport Specialist/Mission Leader. "This Project will save money later but, more important, it will raise the quality of life of people now." ADB's loan, which covers 70% of the total project cost of \$358 million, comes from its ordinary capital resources. The loan carries a 25-year term, including a grace period of five years. Interest is determined in accordance with ADB's LIBOR-based lending facility.

The Government of India and the State Government will contribute \$108 million toward the project's total cost. The State Government and ERA are the executing agencies for the project, which is due for completion in December 2009.

As part of the programmatic approach, a follow on project for the urban sector in the State has been programmed for 2006 for possible ADB financing. To facilitate the preparation of this follow on project, a \$500,000 technical assistance grant funded by the Government of the United Kingdom accompanies the project. ADB is dedicated to reducing poverty in the Asia and Pacific region through pro-poor sustainable economic growth, social development, and good governance. Established in 1966, it is owned by 63 members - 45 from the region. In 2003, it approved loans and technical assistance amounting to US\$6.1 billion and US\$177 million, respectively.

ADB approves US\$300 million Loan for Road Project to Promote Growth in Gansu Province, PRC

Manila, Philippines, 13 December 2004
www.adb.org

The Asian Development Bank (ADB) today approved a US\$300 million loan to build an important section of the national highway in Gansu province in the poor northwestern region of the People's Republic of China (PRC). The project will connect the two growth centers of Lanzhou, the capital of Gansu province, and Xi'an, the capital of Shaanxi province, by constructing a 231-kilometer expressway across hilly and mountainous terrain, from Luohandong to Dingxi. Also to be built are the associated access roads, interchanges with toll stations, tunnels, bridges, administrative stations, and service

areas. To improve access to remote poor areas, the project will upgrade 470 kilometers of local roads.

"The project will contribute to economic growth and poverty reduction in the province by lowering the cost of transport, relieving traffic congestion, and improving access to market opportunities and social services," says Makoto Ojiro, an ADB Principal Project Economist.

"Better transport links are necessary to improve economic efficiency, foster domestic and international trade, and facilitate efficient economic growth."

Remote and isolated in a harsh natural setting, Gansu province is one of the least developed provinces in the PRC. About 1.6 million people, or 36% of the total population in the project area, live below the poverty line.

One of the reasons for the high level of poverty in the province is slow economic growth, partly because of inadequate infrastructure. Despite considerable investments in the road sector, the road network is still inadequate, and does not provide efficient access to markets and social services such as education and health.

The PRC Government is committed to reducing poverty through transport infrastructure investment and in its 10th Five-Year Plan (2001-2005), total investments are expected to reach about CNY1, 800 billion, almost double that of the previous five years.

Since 1991, ADB has provided 29 loans, totaling nearly \$5.3 billion, to finance about 3,900 km of road development, together with 7,100 km of associated local road networks. Of these projects, 18 have been completed and are open to traffic.

ADB's loan, which will cover 34% of the total project cost of \$882 million, comes from its ordinary capital resources. It carries a 25-year term, including a grace period of five years. Interest is determined in accordance with ADB's LIBOR-based lending facility.

The Ministry of Communications will contribute \$195.3 million toward the project cost, and \$123.3 million will come from the Gansu Provincial Government. The China Development Bank will provide co financing worth \$263.4 million.

The Gansu Provincial Communications Department is the executing agency for the project, which is due for completion in December 2009.

ADB is dedicated to reducing poverty in the Asia and Pacific region through pro-poor sustainable economic growth, social development, and good governance. Established in 1966, it is owned by 63 members - 45 from the region. In 2003, it approved loans and technical assistance amounting to US\$6.1 billion and US\$177 million, respectively.

ADB Approves US\$6.4 Million for Viet Nam's Poverty Reduction Program

ADB Equity to Help Build Investor Base for Philippines Local Government Unit Bonds

Manila, Philippines, 21 January 2005

www.adb.org/media

The Asian Development Bank (ADB) has agreed to an equity investment of about US\$1.3 million equivalent for a 25% stake in a Philippine credit guarantee company that protects private financial institutions and other investors in the country's local government unit (LGU) bonds against borrower payment default.

The ADB investment will help the LGU Guarantee Corporation (LGUGC) build up its capital base and reserves to meet the growing demand for its guarantee services. This will broaden the investor base for LGU bonds and increase financing from private financial institutions for LGU borrowers who are considered creditworthy.

With a bigger capital base, LGUGC will also be able to extend its LGU guarantee business to new areas, such as guarantees for LGU contractual obligations under Build-Operate-Contractual

arrangements for municipal-level private infrastructure services in the Philippines.

"This investment in the Philippines marks the first time that ADB is assuming risk on subsovereign commercial obligations without the backup a central government guarantee. We anticipate further involvement in pilot projects that seek to help municipalities in ADB's developing member countries gain access to private capital," says Alfredo Pascual, Director of the Private Sector Operations Division of ADB.

"ADB expects to provide technical assistance to designated municipalities and local water utilities to prepare them for issuing bonds in the commercial markets, particularly in Thailand, India and the People's Republic of China. The objective in all instances is to attract private investor interest and to free local governments from exclusive reliance on central government institutions for their debt funding needs."

ADB support will be focused on municipalities with a demonstrated commitment to reach a creditworthy status. Typically, this is demonstrated by a municipality's ability to obtain a credit rating of close to investment grade or better. In the case of LGUGC, there is a credit rating system for LGUs within a separate department of the company. "In the long run, we expect that LGU ratings services in the Philippines will be undertaken as an economically sustainable business by an independent rating agency," Mr. Pascual adds.

The development of an LGU debt market has been difficult because private investors perceive subsovereign credit as high-risk and politically sensitive. Therefore, national government agencies and government financial institutions have dominated the debt financing subsovereigns. With substantial devolution legislated under the LGU code of the Philippines, LGUs' demand for funds has increased far in excess of what the national government and donor agencies can provide. The ultimate goal of the national government is for more creditworthy LGUs to tap private sources of capital.

"The project will offer comfort and assurance to new investors in LGU bonds and at the same time enable creditworthy LGUs to go ahead and borrow on their own from the financial markets," says Stephen Wermert, an ADB Senior Structured Finance Specialist.

"Over time, such credit guarantees will entice other investors such as insurance companies and pension funds to enter the market. This will help LGUs access more funds for their projects and reduce poverty in their areas."

LGUGC is a private company sponsored and owned by a consortium led by the Bankers' Association of the Philippines and the Development Bank of the Philippines.

INTERVIEWS

Interview with Jay Spector

Executive Director

Water Infrastructure Finance Authority of Arizona (WIFA)

By Katherine Magalif

IADF: *Why did you choose to go into the field of infrastructure finance?*

JRS: My undergraduate work was in finance and my graduate in real estate, so it was nice to take over an agency specializing in

IADF 4000 Albemarle Street NW, Suite 407, Washington, DC 20016

T: 202-966-0587 F: 202-362-7692 Web: www.developmentfunds.org

finance and construction. It was a great opportunity to take all of my skills and use them in one job.

IADF: *What drew you to Water Infrastructure Finance Authority of Arizona (WIFA) specifically?*

JRS: WIFA has a wonderful reputation within the state of Arizona – basically, it’s a non-governmental government agency. It operates like a business; it’s efficient and has both the flexibility and the ability to serve the needs of the community. I enjoy having the ability to see how the agency helps real people every day.

IADF: *When was WIFA founded and by whom?*

JRS: WIFA was originally founded by the Arizona State Legislature in 1997, but in 2004 we were reauthorized for ten more years. This is actually uncommon, since most agencies get reauthorized for five years, but I worked to get us a ten year reauthorization

IADF: *What is its mission?*

JRS: WIFA’s mission is to maintain and improve water quality in Arizona by providing financial assistance and technical assistance for basic water infrastructure.

IADF: *How does WIFA finance infrastructure projects?*

JRS: Essentially, we act as a bank for cities, projects, tribes. We then do a whole underwriting process where the cities, tribes, complete a Project Finance Application (PFA) according to which we put them on our Priority List, acting, essentially, as a direct lender.

IADF: *How is WIFA itself financed?*

JRS: WIFA is financed by capitalization, grants from the US Congress, and a very small capital contribution from the state legislature. We are also authorized to sell bonds. Actually, that was one of our accomplishments this year, we had a \$323 million strong leveraging bond program. However, and this is something that I’ve been working hard to fix in my time as director, we do not get enough grants from the US Congress. The reason is that they are using a formula left from the 1970s, and Arizona has experienced just a little growth since then. We’ve been working very hard to change that formula so that Arizona can have as fair a contribution as other states.

IADF: *What percentage of project finance applications does WIFA approve and on what basis?*

JRS: Well, it’s a two-step process. Our 12-member Board of Directors has to approve every project, but before that, about 95% of the applications go through to the Executive Director. Then, after I approve them, 99% are approved through the Board of Directors.

IADF: *Who are some of WIFA’s partners and what are their responsibilities in your joint projects?*

JRS: Our two primary partners are the US Department of Agriculture and the North American Development Bank.

IADF: *What is WIFA’s relationship with the Federal government?*

JRS: We have a very good relationship with the Federal government because we administer their programs. We especially have a wonderful relationship with the San Francisco branch.

IADF: *Could you highlight some of your recent initiatives?*

JRS: Funding arsenic projects – since the government lowered the allowable arsenic content in water – basically, what we have been doing is trying to convince these water systems to comply with the new regulations and getting the word out on arsenic financing.

IADF: *What are some challenges WIFA faces on a daily basis?*

JRS: As well as the funding of the arsenic projects I mentioned, the changing of the CWRLF allocation formula that the Federal

government uses has been our greatest challenge. Arizona has lost out on more than \$216 million because of the formula left over from the seventies, and we need the additional assistance from EPA. It’s only fair that Arizona should get the same treatment as others.

IADF: *What advice would you give a new water infrastructure development fund in a developing country?*

First of all, become a partner with an agency like WIFA that can provide assistance in formation. Secondly, and this is equally important, make sure you sell it well to the established government because you definitely need the support of your elected officials. Finally, make sure you have both the legislative and the administrative capabilities to further the work of your organization.

IADF: *Thank you very much for your time. We wish you the best in your work and new initiatives.*

WIFA has worked not only to improve water quality in Arizona, but has shared its expertise with similar initiatives in India and Mexico. More information about WIFA can be found on its website, <http://www.azwifa.gov>.

SPOTLIGHT: Ho Chi Minh City Investment Fund for Urban Development (HIFU)

[Based on the presentation by Giao Thi Yen, General Director, HIFU at the International Association of Development Funds’ (IADF) 2nd *International Conference on Financing Municipalities and Sub-National Governments*]

By Katherine Magalif

Background

HIFU was established by the Government of Vietnam in 1997 as a pilot model to increase effectiveness in utilizing state budget and non-state mobilized funds for developing urban infrastructure.

Objective

HIFU’s mission is to raise a large size capital fund for infrastructure development.

Ownership, Structure, and Operation

HIFU is a state-owned financial institution, directed by the Ho Chi Minh City People’s Committee. HIFU’s operations mainly focus on:

- Disbursement and repayment management of trust fund;
- Lending to urban infrastructure projects related to transportation, treated water, health, education, resident areas, and industrial parks;
- Direct investment through founding and managing joint-stock companies working on socio-economic aspects of infrastructure.

Financial Position

HIFU’s equity capital increased from US \$12.84 M in 1997 to US \$39.75 M at the end of 2003.

Programs

Managing State Fund

IADF 4000 Albemarle Street NW, Suite 407, Washington, DC 20016
T: 202-966-0587 F: 202-362-7692 Web: www.developmentfunds.org

Ho Chi Minh City's government assigned a part of state capital to HIFU's management for disbursement, utilization, and repayment. This mechanism has partly helped transform the older mechanism of state subsidies into budget lending with full repayment. The new mechanism has been mostly applied in financing projects of channel area clearance, damaged resident building clearance, and new area building. With its experiences of trust fund management, HIFU has recently been assigned management of the Pollution Minimization Fund of Ho Chi Minh City and its corresponding Revolving Fund, which are centered on cleaner production and environmental improvement.

Loan Syndication With Banks

The advantages of loan syndication financing include the ability of raising a large amount of funds for long-term financing of revenue-backed projects which could not be funded by a single bank, risk-sharing, and increased control of project implementation. This mechanism has been applied to finance many large infrastructure development projects in Ho Chi Minh City. In its role as syndication leader, HIFU provided about 20% of the capital. With this capital in place, the local government was successful in mobilizing the remaining 80% from other economic sectors for investment.

Foundation of Joint-Stock Companies

The foundation of joint-stock companies investing in infrastructure fields is a typical model of public-private ownership. The advantages of this modality include better management, stable profitability, and the ability to transfer part of the risk (for which the state had been completely responsible earlier) to the private sector. HIFU was able to successfully apply this model to Ho Chi Minh City (HCMC) development through the foundation of the Ho Chi Minh City Infrastructure Investment Company (CII).

Management of HCMC Infrastructure Investment Company (CII)

Founded by HIFU in 2001, CII operates in concession contracts of operating transportation projects and investing in revenue-backed infrastructure projects under various forms of Build-Transfer (BT), Build-Operate-Transfer (BOT), etc. In order to redirect budget resources to fund other projects, the City transferred the entitlement of operating 02 roads to CII. Based on this concession contract and the contribution of 15% of equity to CII, HIFU publicly mobilized capital to set up an initial US \$20 M registered capital. CII has then multiplied this model by participating in other urban infrastructure projects.

HIFU's main strategy is putting in seed capital (about 20% of registered capital) in order to attract other public financial resources to invest in the City's infrastructure projects.

Municipal Bond Issuance

HCMC Municipal Bonds (the local government bonds) were first issued by the government of Ho Chi Minh City in 2003, in the form of a general obligation bond. The City's government has subsequently empowered HIFU to issue US \$127 M of the 2003 municipal bonds in 2003. Successful municipal bond issues in HCMC opened up a new fundraising channel with advantages of longer-term and stable financing, reasonable costs of financing, and suitability to infrastructure projects. In 2004, HIFU issued another US \$127 M of municipal bonds and has been studying a municipal bond issuance plan for revenue-backed projects in the City.

Future Opportunities

The high degree of decentralization of Ho Chi Minh City allows it to mobilize every domestic and foreign resource for local needs, especially in seeking financing for infrastructure development. HIFU's past achievements open up future opportunities for both the organization and the City, which include:

- Ability to mobilize financial resources from any economic sector in Vietnam and from abroad;
- Affirming HIFU's strategic position as a leader and coordinator in fundraising;
- Applying various market-based economic financing mechanisms in emerging Vietnam;
- Chance of working with international partners for achieving more funding and applying new financial mechanisms.

Challenges

Although HIFU has been very successful, it still faces several challenges. The mission of raising a large amount of capital for infrastructure development has led to increased demand to expand and apply the HIFU model in other provinces. There is also a need to provide large-in-size long-term financing with low interest rates in order to provide public services and to match the projects' revenue generation and budget-balancing of the City. Additionally, it is still necessary to make improvements and adjustments in financial process management, financial and accounting transparency, autonomy, and the achievement of credit ratings which would be in accordance with international financing standards. Finally, capacity-building to meet international standards, the expansion of HIFU's and other local funds' capital size, and the creation of supporting agencies (such as credit-rating agencies) for Vietnam must become a priority.

Long-Term Development Strategies

HIFU has several long-term development strategies, some of which the Fund has already initiated. They include:

- A Technical Assistance project, which is already being implemented and includes improving HIFU's capacity-building in order to bring it to an International or Asian Region standard fund;
- Mobilizing capital in local and overseas markets (domestic/foreign currency-denominated municipal bond issues, bond issues in international financial markets under HIFU as an issuer, and other types of debt financing);
- An idea of setting up Ho Chi Minh City Infrastructure Development Fund (HIDF) for the City which has received strong interest and support from Ho Chi Minh City's government and other national ministries.

SPOTLIGHT: Water Infrastructure Finance Authority of Arizona (WIFA)

[<http://www.azwifa.gov>]

By Katherine Magalif

Location	Arizona
Date Founded	1997
Legal Status	Government Entity
Main Sectors of Lending	Water, Sewage, and Technological Development
Credit Ratings	AAA (Fitch); Aaa (Moody's); AAA (Standard & Poor's)
Executive Director	Jay R. Spector
Staff	14

Background

The Water Infrastructure Finance Authority of Arizona is an independent agency of the state of Arizona and is authorized to

finance the construction, rehabilitation and/or improvement of drinking water, wastewater, wastewater reclamation, and other water quality facilities and projects. Generally, WIFA offers borrowers below market interest on loans for one hundred percent of eligible project costs. As a bond bank, WIFA is able to issue water quality bonds on behalf of communities for basic water infrastructure. Through active portfolio and financial management, WIFA provides significant savings due to lower interest rates and shared or reduced closing costs. WIFA is able to lower a borrower's interest costs to between 70 and one hundred percent of WIFA's tax-exempt cost of borrowing.

Objective

WIFA's mission is to maintain and improve water quality in Arizona by providing financial assistance and technical assistance for basic water infrastructure. WIFA aims to guide its resources to communities with the greatest need to maintain and enhance Arizona's quality of life.

Ownership, Structure, and Operation

A 12-member Board of Directors governs the affairs of WIFA. They represent various State agencies and sectors of the population and serve on the four WIFA committees (executive, fiscal, project finance, and project priority). The Chairman represents the Arizona Department of Environmental Quality and serves on all four committees; the Vice-Chairman represents water systems which serve more than 500 customers; two other members represent cities of more than 50,000 and counties with over 500,000 residents; one board member represents water systems which serve less than 500 customers; one board member represents counties of less than 500,000 residents; and five other board members represent the Arizona Department of Water Resources, Sanitary Districts, the Arizona Corporation Commission, the Arizona Treasurer's Office, and the Arizona Department of Commerce, respectively. WIFA is run by the Executive Director, Jay R. Spector, and 14 other staff members in five areas:

- Administration and Operations assists WIFA with human resources management, payroll services, strategic planning, board and agency administration, secretarial and reception services, scheduling, and records management.
- Financial Services directs WIFA's financial goals, objectives and policies. This includes overseeing WIFA's debt and loan program. Financial Services also directs WIFA's Financial Assistance and Technical Assistance programs.
- Fiscal Services transacts daily financial operations including WIFA loan disbursements, repayments, budgeting and procurement. Fiscal Services also manages WIFA debt service, investments, federal grants and state match appropriation.
- Information Technology supports, maintains, implements, and develops software and hardware solutions to carryout WIFA's business mission.
- Executive Office provides leadership and strategic direction for WIFA. The Executive Office also includes all external communication, intergovernmental affairs and outreach.

Financial Position

Fiscal Year 2003

- Assets = \$479.2 M
- Liabilities: = \$240.5 M
- Net Assets: = \$238.7 M

Fiscal Year 2004

- Assets: = \$716.5 M
- Liabilities: = \$444.8 M
- Net Assets: = \$271.7 M

Programs

WIFA's principal tools for providing low interest financial assistance include the Clean Water Revolving Fund (CWRF) for publicly held wastewater treatment projects and the Drinking Water Revolving Fund (DWRF) for both publicly and privately held drinking water systems. Both funds are capitalized by contributions from the state and the U.S. Congress. WIFA also manages a Technical Assistance program (TAP). The TA program offers pre-design and design grants to all eligible wastewater and drinking water systems. Both pre-design and design loans are available. The purpose of the TA program is to enhance project readiness to proceed with a WIFA project construction loan.

Clean Water Revolving Fund

Only public jurisdictions are eligible for financial assistance under WIFA's Clean Water Revolving Fund (CWRF), including cities, towns, special districts, county improvement districts, sanitary districts, and Indian Tribes.

Funds can be used to plan, construct, rehabilitate, modify, improve, upgrade and/or equip and expand wastewater treatment and water reclamation facilities and related water quality projects.

Drinking Water Revolving Fund

Publicly-held community drinking water systems (excluding federal facilities) are eligible for financial assistance under WIFA's Drinking Water Revolving Fund (DWRF). These systems include cities, towns, special districts, domestic water improvement districts, co-ops and nonprofit associations. Privately-held community drinking water systems are also eligible. A community water system is defined as a water system that serves 25 or more people (and least 15 service connections) year round. Nonprofit, non-community water systems, such as schools and church camps, are also eligible, although they must meet all other WIFA financial assistance requirements.

Funds can be used to plan, engineer, construct, rehabilitate, modify, improve, upgrade, and/or equip drinking water facilities and related water quality projects. Funds may also be used for source water protection and land acquisition.

Technical Assistance Program

WIFA's Technical Assistance Program assists all eligible systems, to prepare for project construction in circumstances where resources are otherwise limited or lacking.

Both eligible drinking water systems under the DWRF and wastewater systems under the CWRF may apply for WIFA project Technical Assistance (TA). Technical assistance loans are also available to all eligible systems. To obtain a project TA grant or loan, a project must appear on either the CWRF or DWRF TA Priority Lists. Project design loans are for engineering planning, engineering/design and design review. Pre-design technical assistance grants and loans are for all other types of projects. Some common examples of pre-design TA projects include: project development, feasibility study, system master planning, capital improvement plan, rate study/impact analysis, income survey, financial data review, special district formation, voter education (election), trouble-shooting system, and training for personnel.

General Eligibility Requirements

To be considered for WIFA financial assistance, a project must be on either the CWRF or DWRF Priority List (PL). First, a project must be in the "fundable range" of the PL. The "fundable range" refers to those projects that can be funded by available WIFA monies if they are ready to proceed. Projects not initially in the "fundable range" on either the CWRF or DWRF PL may be funded later during the funding cycle. Those projects that are ready to proceed will rise up into the "fundable range" to receive assistance at the subsidy rates for which they qualify. This generally means

that WIFA can provide financial assistance on a "first-come, first-served" basis for communities who meet the statutory requirements to borrow.

The priority list is a guide, a pre-notification that a community is considering a project and that they may seek funding from WIFA. WIFA funds projects based on "readiness to proceed" and local momentum. Arizona Revised Statutes prescribe how political subdivisions and private, regulated water companies can obtain the necessary authorization to incur debt.

Modifications to the CWRP or DWRP PLs, including status changes, deletion or addition of projects, may occur at a public meeting of the WIFA Board of Directors. PLs prioritize needs but do not guarantee WIFA financial assistance. Inclusion on a PL is the first step in the funding process. A project must also meet technical, financial and debt authorization requirements to be ready to proceed with funding.

Once on the priority list, a project must submit a Project Finance Application (PFA) and undergo a review to receive a WIFA financial assistance loan. WIFA staff will perform a due diligence analysis on the financial, technical and managerial capacity of an applicant to enter into a loan agreement with WIFA.

Funding Cycles begin in March with TA application forms mailed to all eligible applicants. Applications are normally due in mid-April. During May, WIFA staff conduct a public meeting on the Draft TA IUP (Technical Assistance Intended Use Plan) and PLs (Priority Lists), and the Board of Directors adopts a Final TA IUP and CWRP and DWRP Priority Lists and fundable ranges in June. The new TA IUP and PLs become effective July 1.

Following a TA grant award, grantees are required to submit a written scope of work, schedule and expected outcome for WIFA review prior to receiving a Notice to Proceed and signing a written agreement. Following a TA loan award, borrowers will follow the normal process for financial assistance loans.

To be eligible for WIFA financial assistance, an applicant must obtain the appropriate debt authority. In Arizona all public debt more than 13 months in duration must be authorized by the affected constituents. A recent exception to this rule applies to WIFA technical assistance pre-design and design loans. An eligible wastewater or drinking water system may apply for as much as \$500,000 without debt authority for up to 13 months. There are three ways to obtain debt approval in Arizona: Election, petition and approval by the Arizona Corporation Commission.

The Authority conducts for each potential project an environmental review for impacts of the design or construction of water infrastructure works in accordance with applicable federal and state law. WIFA can deny the project if:

- The project will create a new, or relocate an existing, discharge to surface, or ground waters.
- The project will result in substantial increases in the volume of discharge or the loading of pollutants from an existing source or from new facilities to receiving waters.
- The project is known or expected to have a significant effect on the quality of the human environment, either individually, cumulatively over time, or in conjunction with other federal, state, local, or private actions.

Distribution of Lending by Project Priority

Fiscal Year 2003

- CWRP: 7 projects funded (in top 50 category on priority list) with \$36,400,245, out of which 2 projects

(in top 10 category on priority list) were funded with \$3,217,670

- DWRP: 11 projects funded (in top 50 category on priority list) with \$14,616,858, out of which 4 projects (in top 10 category on priority list) were funded with \$4,061,938

Fiscal Year 2004

- CWRP: 9 projects funded (in top 50 category on priority list) with \$48,495,441, out of which 3 projects (in top 10 category on priority list) were funded with \$10,425,446
- DWRP: 5 projects funded (in top 50 category on priority list) with \$36,414,920, out of which 1 project (in top 10 category on priority list) was funded with \$306,000

Distribution of Lending by Population Category

Fiscal Year 2003

- CWRP:

Population	# Projects	\$ Lent
<2,500	2	2,631,530
2,501-5,000	1	3,000,000
5,001-10,000	1	4,400,000
>10,001	3	26,368,715

- DWRP

Population	# Projects	\$ Lent
<2,500	5	4,601,938
2,501-5,000	0	0
5,001-10,000	1	100,000
>10,001	5	8,788,080

Fiscal Year 2004

- CWRP

Population	# Projects	\$ Lent
<2,500	2	1,225,446
2,501-5,000	3	9,656,333
5,001-10,000	2	16,598,443
>10,001	2	21,015,219

- DWRP

Population	# Projects	\$ Lent
<2,500	1	1,050,000
2,501-5,000	2	3,638,280
5,001-10,000	1	1,946,750
>10,001	2	38,914,920

Community Benefit

A vital measure of the benefit WIFA loans provide to communities throughout Arizona is the savings to tax/ rate payers when compared to traditional market financing. In Funding Cycle 2004, WIFA's below-market interest rates and reduced closing costs will save Arizona communities an estimated \$26,000,000 over the term of the loans. Since the inception of the Authority, WIFA conservatively estimates total savings of \$172,000,000 to tax/ rate payers.

Lending

As a "bond bank," WIFA is able to issue water quality bonds on behalf of communities for basic water infrastructure. Through active portfolio and financial management, WIFA provides significant savings due to lower interest rates and shared/reduced closing costs. WIFA is able to lower a borrower's interest costs to between 70 and one hundred percent of WIFA's tax-exempt cost of borrowing.

WIFA floats bonds every 12-18 months, with an average issue size of \$100-150million. In 2004, it sold \$323 million which included about \$95 million in refunding bonds. Its AAA and Aaa bonds are secured by the revenue that WIFA receives from the loans that it makes from its Financial Assistance Fund.

The WIFA Board of Directors has established a target rate ranging between 70% and 100% of tax-exempt interest or prime rates. The Board will set interest rates /subsidies on individual loans pursuant to the priority of the project, local fiscal capacity of the area served by the system requesting assistance, and the lending capacity of the CWSRF or DWSRF.

Security and Default

The primary security that WIFA's borrowers provide is a lien on system revenues, a lien on excise taxes or a general obligation of the political subdivision. Each WIFA borrower is liable only for its own obligations, rather than for other localities' programs sharing its issuance.

Intricate provisions exist that outline the Authority's remedies in an instance of default.

International Association of Development Funds

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