

# IADF BULLETIN



## *FINANCING LOCAL GOVERNMENT*

Volume 1, Issue 5

July 2004

### **IADF Happenings**

As we settle into our new office (and settle all pending telecom issues), we cordially invite you to drop by our Tenleytown address to chat, pick up a copy of our latest newsletter, or register for the Conference in person. Please also note that we have a **new fax number**. Remember this when sending in your Conference registration.

Speakers continue to confirm for our *Second Conference on Financing Municipalities and Sub National Governments*, including Jorge Mattoso, President of Caixa Economica Federal in Brasil; Tom Kelly, President, NYSEFC; Jean Pierre Elong Mbassi, Coordinator, Municipal Development Partnership; Bill Chew and Jane Eddy of Standard & Poor's, and others.

One item that should not escape your view is to **prepare for the Conference now**. Don't delay- **register now** to avoid issues with visas or hotel reservations! Even if you are not sure about attending the Conference, if you have any interest, **obtain your visa today**. This will offer you the option of attending closer to the event.

As always, please do not hesitate to call us with any questions regarding the event. We hope to see you in Washington.

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### ***Sign up now for the Fall Conference!***

Sign up for the **SECOND INTERNATIONAL CONFERENCE ON FINANCING MUNICIPALITIES & SUB-NATIONAL GOVERNMENTS**, held in Washington, DC this September 30 and October 1, 2004, and get great discounts on IADF membership for 2005!

Membership benefits include access to our IADF database, the IADF newsletter, roster of financial experts, study and training programs, and more.

Don't miss out on this great opportunity to network with top officials in the municipal financing world and discuss industry trends.

[www.developmentfunds.org/programs.htm](http://www.developmentfunds.org/programs.htm)

## **NEWS DESK**

-Compiled by Laura Robinson

### **IDB Approves \$11 Million Loan to Costa Rica for Sustainable Development Program in Sixaola River Binational Watershed**

July 23, 2004  
www.iadb.org

The Inter-American Development Bank announced the approval of an **\$11 million loan** to Costa Rica for a sustainable development program in the binational watershed of the Sixaola River that will complement a similar program on the opposite margin, in the Panamanian province of Bocas del Toro. Both programs are included in the project portfolio of **Plan Puebla Panama**, a regional integration and cooperation plan supported by Belize, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua and Panama.

The new program, which will be carried out in an area with both a great wealth of natural resources and limitations due to its high vulnerability, is based on three elements Costa Rica and Panama agreed upon after extensive consultations: a regional sustainable development strategy for the watershed; an indicative plan for functional land-use management and a shared vision of development.

The program seeks to raise the living standards of the population of the canton of Talamanca, one of the poorest districts in Costa Rica, home to Bri Bri and Cabecar indigenous communities, Afro-Caribbean groups and Latino settlers. IDB resources will be used to finance actions to strengthen environmental protection and ensure the sustainable use of the watershed's natural resources; reduce its vulnerability to natural disasters; diversify rural production; invest in basic infrastructure and increase the management capacity of indigenous communities and institutions at the local, regional and binational levels.

### **Bulletin: Ratings on Finland's Municipality Finance Unchanged as EU Accepts MGB Regulations**

Reprinted from RatingsDirect  
<http://www.munifin.fi/>

STOCKHOLM (Standard & Poor's) --Standard & Poor's Ratings Services announced its ratings on Finland-based Municipality Finance PLC (MF; AAA/Stable/A-1+) remain unchanged. This follows the European Commission's statement on June 16, 2004, that it has lifted objections to the legislation that allows the Finnish Municipal Guarantee Board (MGB) to grant guarantees to MF. The statement followed the modification of MGB regulations, clarifying the fact that special credit institutions like MF may benefit from state guarantees only with respect to their public tasks.

The amendments have no effect on the issuance of the guarantees by MGB or the operations of MF, which have always been compatible with MGB regulations. In addition, MGB regulations have always been applied by the MGB and MF in line with the amendments.

The Commission's decision was already anticipated by Standard & Poor's when it raised its long-term credit rating on MF in October 2003. Standard & Poor's believes that the lifting of the Commission's objections is positive for MF, as it reduces the slight uncertainty that existed regarding MF's operating environment. On

June 22, 2004, Standard & Poor's affirmed its 'AAA' senior unsecured rating on MF's updated and increased €3 billion program for the issuance of debt instruments.

### **NSW Treasury Corporation- Annual Borrowing Program** <http://www.tcorp.nsw.gov.au/html/>

NSW Treasury Corporation's (TCorp) funding requirement for 2004/05 is estimated at \$3.2bn, reflecting the refinancing of maturities and the funding of a small cash deficit for the NSW budget result for the coming year. Maturities to be refinanced in 2004/05 are lower than in recent years, due to the lack of a Benchmark bond maturity in the coming year.

TCorp's funding strategy continues to center around the maintenance of large, liquid lines of Benchmark bonds. Total Benchmark bonds on issue (incorporating Domestic bonds and Global Exchangeable bonds) have averaged between \$18bn and \$19.5bn over the past year, consistent with levels of recent years.

Outstandings in Domestic bonds reduced from over \$14bn to around \$13bn following the maturity of the 1/4/2004 Benchmark line, but are expected to return towards \$14bn over the course of the coming year, as further issuance in the longer maturities is required to meet client funding needs. In the absence of a Benchmark bond maturity in the coming year, TCorp does not anticipate launching a new Benchmark bond line at this stage, and will concentrate on building existing lines.

Outstandings in Global Exchangeable bonds have grown substantially over the past two years, reflecting strong offshore demand for \$A securities given the twin drivers of an appreciating \$A and an attractive interest rate relative to US and other major currencies. As a result current outstandings in Global Exchangeable bonds are around \$5.5bn, an increase of approximately \$2bn over the past year.

The strong demand from offshore saw continued issuance into Japanese markets over the past year. Looking ahead, TCorp expects to continue to source the majority of its offshore funding requirement from this market, though volumes in the coming year are expected to be substantially down on levels of the past two years.

With the favourable circumstances experienced for offshore funding over recent periods, TCorp's mix of domestic/offshore funding has returned to the long term target of 60%/40% after being as high as 70%/30% in 2001.

## INTERVIEW



### **Interview with Włodzimierz Grudzinski- 7/23/2004**

**President  
BISE Poland**

**By Steven Medlock**

**IADF:** *Can you tell us your title and responsibilities at BISE?*

**WG:** I am the President of the Management Board. It is my responsibility for Current Accounts.

**IADF:** *What activities has BISE been involved in related to municipal finance?*

**WG:** We are one of the new banks created after the transformation of Poland in 1990. The mission of the bank is financing projects which directly or indirectly creates new job placements in Poland. This is because at the founding of the bank the main shareholder was the Minister of Labor. Ofcourse, now we are a private bank, but our mission still remains similar. So we are active in the SMEs and the municipalities – in general local authorities. We started offering loans to local authorities in 1993. Since we are a normal commercial bank today this type of specialization is a way of obtaining a profit for us. So we are a medium sized bank in Poland and we do not have a large net worth, so we are active in the area of local authorities mainly via credits. Since 1993 we have financed over 1,200 projects. At the beginning we started with water projects – these were small rural local authorities which started to invest in water pipelines. After this we have financed very different projects including waste collection, garbage technology, construction, the schools, modernizing electrical and heating systems, we've even built two sports stadiums, and the buildings housing many of these local authorities.

**IADF:** *Can you give us some examples of the best programs in municipal finance in Poland?*

**WG:** One type of specialization that we have is that we got financing lines from different international financial institutions because we have no big long-term liabilities. So for example we borrow money from the World Bank – the two Polish Banks who initially borrowed the money were PBK and BISE, we got a line of credit from the Development Bank of the Council of Europe for loans to SMEs and local authorities, we also have a line of credit from the Nordic Investment Bank for investments with the goal of non-violent government protection, and so this is the reason that we have long term monies available to local authorities. For example the line from the Nordic Investment bank allowed us to

offer a 20 year loan to many municipalities. This loan is well fit to the life cycle of many projects in the municipalities.

**IADF:** *What makes those effective?*

**WG:** There are several issues. First of all a good preparation. After the transition this was the most difficult thing because the local authorities knew their demands, but there were problems with defining, description, planning, and developing expertise on the part of the local governments. But, I think that now the local authorities are well prepared. From our point of view this preparation entails a good analysis of the budget of the local authority to see if they can afford to pay, secondly to see how ready they are to enact the project when they get financing, and to keep financing the parts of the project when it is underway. This is now normal technology for us. I don't think it is very special to do this analysis for us, because for us this is daily work.

**IADF:** *What kind of legal and regulatory environment exists in Poland relative to lending to sub-national governments?*

**WG:** The government of Poland imposes several limits placed on our lending. These limits are checked up yearly by a special office that checks to see if there is a possibility from the point of view of the budget deficits of local authorities and other financial burdens to see if these governments can take a loan. The bank is also subject yearly checks of its finances. There are three types of limits imposed on the local authority. From this point of view this market is safe from the point of the bank except for a few exemptions – mainly that the service sector and construction contracts have to go through a process of bidding and for taking a loan there is a public bid made by these groups and then the banks compete over the conditions of the loan. Of course there is a very big amount of condition on the level of the big towns. Since we are a smaller bank we work with the smaller governments. The biggest customer that we have is a town of 150,000 people. Usually we work with towns of 30,000, but we can even work with a township of 3,000 people in a rural area. In Poland we have three levels of self-government and at the lowest level there are 2,800 townships and at the next level there are about 300 towns – these are our potential customers. Our specialization means that our average loan is about \$300,000 and the projects we finance average around \$800,000 US – although some projects have had a value of \$5M US or \$10M US.

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

**WG:** In general we are the bank for SMEs and local authorities. We also act with non-profit organizations and individual people. In general we want to keep our specialization and develop our relationships with municipalities and local authorities. We wish to create a demand for more diverse banking services on the part of these groups, because often we are the only bank for the local authority. Generally we want to specialize even more in financing municipality or local government financing because I feel that we are strong in this market and there are very big demands.

**IADF:** *Are major multilateral donor agencies involved in financing local development in Poland? If so, which ones?*

**WG:** There are some projects in Poland, but generally from the financing side the major players are banks and the National Funds for Environmental Protection. I know that there are some projects for different types of financing, but I'm not sure that these make up a large percentage of the market. Banks sometimes redirect investment from abroad to these projects, for example the Nordic Investment Banks endowment loan in Poland, the EBRD also has a similar role in Poland. The European Investment Bank has also considered a similar financial operation, but it is not a big part of the market. Now that we are in the European Union there may be more cause for certain institutions to invest, but it has not happened yet.

**IADF:** *What other sources of financing exist for these projects? What sort of assistance does the Polish national government give?*  
**WG:** The Polish government does have some funds available as intermediary funds in the projects that will be founded by European Union structure funds, so there are some parts of the budget available. These is some assistance like this available but no financing from the government.

**SPOTLIGHT:**

**West Virginia Water Development Authority**

-Laura Robinson

Location	Charleston, WV
Date founded	1972
Legal Status	governmental instrumentality of the State and a body corporate
Cumulative total lending since founding	\$1,135,078,714
Bond Rating	Standard & Poor's assigns an A- underlying rating to WDA bonds. WDA Bonds receive a AAA rating due to the bond insurance policy. It also has used Moody's Aaa bond insurance rating on some issues.
Staff (approx.)	6- 1 director and 5 staff members
Chairman	John M. Miller III
Director	Daniel B. Yonkosky

**Historical Background**

The WDA was established in 1972 by the West Virginia Legislature as a governmental instrumentality of the State and a body corporate. The WDA commenced operation in 1974 and is authorized to provide financial assistance to Local Governmental Agencies (LGAs--municipalities, public service districts and other political subdivisions) to meet the requirements of state and federal water pollution control laws, thereby helping to protect the health of West Virginia's citizens, improve infrastructure to attract economic development and protect the environment.

**Fund Objectives:**

The West Virginia Water Development Authority's mission is to provide communities in West Virginia financial assistance for development of wastewater, water and economic infrastructure that will protect the streams of the State, improve drinking water quality, protect public health and encourage economic growth.

**Primary Activities**

The WDA maintains a variety of programs to provide long-term, short-term and private-activity financing at favorable interest rates for construction and/or acquisition of wastewater and/or water systems.

Generally, programs are funded with proceeds of water development bonds issued from time to time by the WDA. Moneys in the various programs are loaned to local governmental agencies through the purchase by the WDA of revenue bonds or notes issued by the LGAs. The LGAs repay the loans from the revenues of the systems or other permanent financing.

The WDA's most recent issue in the amount of \$41,475,000 continues its program of providing favorable interest rate loans to qualifying LGAs seeking financing for construction of or

improvements to conventional wastewater and/or water systems. The WDA has developed a program for financing unconventional wastewater and/or water systems.

**Ownership, Structure and Operation**

The WDA operates under the supervision of the West Virginia Water Development Board. The Board is composed of seven members, including three ex officio members: the Director of the Department of Environmental Protection, the Commissioner of the Bureau for Public Health, and a State officer or employee annually designated by the Governor who, in the judgment of the Governor, is most responsible for economic or community development. The remaining four members of the Board are appointed by the Governor, with the advice and consent of the State Senate, for terms of six years. Appointed Board members may be reappointed to serve additional terms. No more than two of the appointed Board members shall at any one time belong to the same political party. The Board annually elects one of its appointed members to serve as chairman and another as vice chairman and appoints a secretary-treasurer, who need not be a member of the Board.

The WDA employs officers, agents, employees and advisors. The WDA staff consists of a director and five employees. The WDA is self-supporting; it does not rely on any State appropriations to pay its operating expenses

**Lending**

The following terms apply to loans from the WDA to local government agencies for conventional financing of wastewater and water systems through the Construction Loan Program:

- The local government agency must have received a letter from the West Virginia Infrastructure and Jobs Development Council (IJDC) recommending the WDA as a source of loan funding for the project.
- The current interest rate is 5.75%.
- The local government agency may choose loan terms ranging from 10 to 40 years.
- Loans are made on a first-come basis.
- No maximum or minimum limit is placed on the amount to be borrowed. As a practical matter, however, a local government agency should not borrow less than \$100,000.
- The borrower is required to issue a revenue bond to the WDA to secure the loan.
- Debt service coverage required is 115%, unless the local government agency elects to pre-fund a debt service reserve equivalent to one year's debt service, in which case coverage can be reduced to 110%.
- In some circumstances, a WDA loan may be used for refinancing existing debt in conjunction with the financing of a new project.

**Loan Repayment**

Interest accrues immediately after the loan closing, and interest payments are made semi-annually to the WDA. LGAs are permitted to capitalize the interest on the loans during the construction period plus six months. Principal payments are made annually after completion of construction. LGAs make monthly payments of principal and interest to the West Virginia Municipal Bond Commission (MBC), which is the State sinking fund for the LGAs. The MBC makes semi-annual payments to the WDA.

**Project Examples**

*WV Infrastructure Council*

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The West Virginia Infrastructure and Jobs Development Council (IJDC) was established in 1994 through an act in the legislature to create a more coordinated effort in reviewing and funding infrastructure in the West Virginia. The WDA serves as the administrative agency for the IJDC and is designated fiduciary of the West Virginia Infrastructure Fund. The WDA provides administrative, financial and legal expertise to the IJDC and provides ongoing servicing on loans made from the Infrastructure Fund.

WDA co-administers the IJDC financing programs by:

- Administering the bond process.
- Executing loan and/or grant agreements.
- Closing loans and/or grants.
- Disbursing payments to projects.
- Paying administrative expenses, which are reimbursed by the IJDC.
- Maintaining financial records of the IJDC for the annual audit by an independent auditor.
- Maintaining bonds, notes, bond transcripts and files.
- Providing ongoing loan servicing functions.

**DEP Clean Water State Revolving Fund**

The WDA co-administers the Department of Environmental Protection's (DEP) Clean Water State Revolving Fund (CWSRF) by:

- Administering the bond process.
- Preparing and mailing loan agreements.
- Closing loans.
- Paying administrative expenses, which are reimbursed by the CWSRF.
- Maintaining bonds, bond transcripts and files.
- Providing ongoing loan servicing functions.

**Drinking Water Treatment Revolving Fund**

The WDA co-administers the Bureau for Public Health's (BPH) Drinking Water Treatment Revolving Fund DWTRF by:

- Administering the bond process.
- Preparing and mailing loan agreements.
- Closing loans.
- Disbursing payments to projects.
- Paying administrative expenses, which are reimbursed by the DWTRF.
- Maintaining financial records of the DWTRF for the annual audit by an independent auditor.
- Maintaining bonds, bond transcripts and files.
- Providing ongoing loan servicing functions.

**Karnataka Urban Infrastructure Development and Finance Corporation (KUIDFC)**

-Laura Robinson

Location	Karnataka, India
Year founded	1993
Legal Status	State-owned, public limited government company incorporated under the Companies Act 1956
Managing Director	Dr. K.P. Krishnan
Capital Structure	<i>Authorized Capital:</i> -Rs 100 Millions -1 Million Equity Shares of Rs.100 each <i>Issued Subscribed and Paid up Capital:</i> -Rs.80.65 Million -0.8065 Million Equity Shares of Rs.100 each
Main sectors of lending	Urban planning and infrastructure development

**Historical Background**

Karnataka is one of the most rapidly urbanizing states in India. Nearly one-third of its population about 18 million, lives in urban areas. The Karnataka Urban Infrastructure Development and Finance Corporation (KUIDFC) was set up in 1993 to assist the urban agencies in the state in planning, financing and providing expertise to develop urban infrastructure.

**Objectives of KUIDFC:**

- To prepare, formulate and implement projects, schemes and programs relating to infrastructure development in the urban areas of Karnataka particularly land development, sanitation, road management, transportation and inter-connected subjects;
- To provide technical and other assistance to urban bodies for development schemes, including implementation of master plans;
- To provide financial assistance by way of loans and advances to urban bodies such as corporations and municipalities, urban development authorities and other local bodies and institutions;
- To provide assistance and consultancy services to local bodies, authorities, urban development bodies and such other organizations for improving their technical and internal capacities and financial resources.

**Responsibilities**

KUIDFC is expected to emerge as a full-fledged State Level Financial Institution (SLFI) with two key functions namely project development and financing. The SLFI is proposed to take on key roles of a facilitator and coordinator, concentrating on development of Urban Infrastructure Financial Market. In line with this objective it is also planned to initially concentrate on developing ULB capacities and identification and development of Bankable projects.

**State Level Pooled Financing**

KUIDFC has been nominated as the State Level Nodal Agency for the Pooled Finance Development Facility (PFDF) patterned on the US Model by Government of India. Each state/union territory is expected to designate either an existing state entity or create a new

entity for execution of the Pooled Finance Development Scheme, and in Karnataka, KUIDFC has been selected to do so.

#### *State Level Pooled Financing Structure*

PFDF addresses the infrastructure needs of the cities and towns, and has the following objectives:

- To improve infrastructure facilities;
- To create durable public assets in cities;
- To decentralize economic growth and employment opportunities;
- To promote dispersed urbanization;
- To integrate spatial and socio-economic planning as envisaged in the Constitution (74<sup>th</sup> Amendment) Act, 1992 ;
- To promote resource generating schemes for urban local bodies to improve their overall financial position;
- To facilitate the development of the Municipal Bond market.

PFDF has been set up to enable the urban local bodies to look for alternative source of funding for their bankable projects/schemes and to provide credit enhancement to allow them to access market borrowings on a creditworthy basis.

#### Supervision

The affairs of the company are managed by the Board of Directors comprised of 12 directors. Members of the KUIDFC Board are nominated by the State government.

#### Project Funding Process:

The State Government, through KUIDFC, routes funds from multi-laterals and bi-laterals to projects by way of annual budgetary support. The primary borrower under a loan from a multilateral or bilateral is the government of India (GoI), which releases funds to the State Government by way of Advance Central Assistance through the Plan Finance Department. Implementing agencies, after incurring expenses, make periodical claims for reimbursement to KUIDFC. KUIDFC, based on the bills submitted by the implementing agencies, makes periodical reimbursement claims to the Controller of Aid Accounts and Audit (CAAA), DEA, New Delhi in the form of withdrawal applications. The withdrawal claims, after being processed by CAAA, and the funds will ultimately be reimbursed to the GoI. GoI in turn releases funds to the government of Karnataka as Advance Central Assistance through the Plan Finance Department.

#### Projects

##### *Upcoming Projects*

The KUIDFC is to set up a separate asset management company from the refunds by civic agencies that had taken out loans from KUIDFC. The proposed company - to be set up towards the end of the year - will use the funds for various urban development projects in the State, it is reported. About Rs 40 crore of capital is already available and more is expected to accumulate once civic bodies such as the Bangalore City Corporation, the BMTC, the BWSSB and the BDA, make repayments.

##### *Ongoing*

- Asian Development Bank (ADB) assisted Karnataka Urban Infrastructure Development Project (KUIDP)
- ADB assisted Karnataka Urban Development and Coastal Environmental Management Project (KUDCEMP)
- Centrally sponsored Mega City Scheme
- Greater Bangalore Water and Sanitation Project (GBWASP)

##### *Proposed*

- ADB assisted North Karnataka Urban Infrastructure Development Project (NKUIDP)
- World Bank assisted Karnataka Municipal Reforms Project (KMRP)

- World Bank assisted Karnataka Urban Water Supply Improvement Project (KUWSIP)

**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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### **International Association of Development Funds**

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