

IADF BULLETIN



FINANCING LOCAL GOVERNMENT

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IADF Conference Brings Together Municipal Finance Community

The IADF is pleased to announce the second annual International Conference on Financing Municipalities and Sub-National Governments, to be held September 30 and October 1, 2004, at the Andres Bello Auditorium of the Inter-American Development Bank in Washington, DC. This year's event will be held in collaboration with USAID, the Inter-American Development Bank, the World Bank, and others to bring together leaders from the institutions that finance municipal infrastructure as well as leaders from the private sector, public sector, and major multilaterals to discuss ways to better infrastructure finance.

The Conference is a unique opportunity for managers and staff of institutions that lend to local governments, investors, mayors, treasurers of local governments, public and private sector financial institutions to come together to discuss ways to improve the financing of capital improvement in emerging market cities and towns. Speakers will include prominent figures from the multilateral financing institutions, USAID, regional municipal fund managers from around the world, credit rating agencies, investment bankers, US bond banks, State Revolving Funds, mayors, and local government financing agencies from Canada and Europe. This year will feature focused dialogues on new-pooled financing approaches being developed in Asia and Latin America, as well as regional meetings between members of the Latin American and Asian institutions specialized in local government finance.

In short, this event will be a unique opportunity to talk with other prominent members of the municipal finance community and pick up the latest innovations and industry trends, as well as to connect with other regional institutions.

Don't delay- register now to avoid issues with visas or hotel reservations! As always, please do not hesitate to call us with any questions regarding the event. We hope to see you in Washington.

Steven G. Thomas
Manager, IADF
Editor, IADF Bulletin

Become a member of the IADF!

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.

www.developmentfunds.org/programs.htm

NEWS DESK

--Compiled by Laura Robinson

Bangladesh
Foreign Donors Commit To Poverty Reduction In Bangladesh, But Warn Against Crime, Corruption
WorldBank.org
May 10, 2004

Foreign donors agreed to continue supporting Bangladesh's poverty reduction efforts on Monday, but warned that the country

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could struggle to attract crucial international investment if it fails to fight corruption and crime. Delegates from 32 donor countries and international agencies met with government representatives to assess the country's achievements in the past year and plan future assistance. "Many of us expressed concerns about Bangladesh's dysfunctional politics ... We agreed that law and order are fundamental to improving the climate for investment -- both foreign and domestic," the donors said in a closing statement.

Nearly half of Bangladesh's 140 million people live on less than a dollar a day, and its economy needs to grow at about 7 percent annually for poverty to halve by 2015. Bangladesh's Finance Minister Saifur Rahman said the country would need an additional \$2 billion annually to reach its poverty reduction target. On a high note, Bangladesh has become less dependent on foreign aid over the past decade. Less than 50 percent of the country's development programs are now financed by aid, compared to more than 80 percent a decade ago.

World Bank vice president for South Asia Praful Patel urged the government to redouble efforts to improve security for ordinary citizens. "Some donor partners who are out there doing programs on the ground may withdraw if the (security) situation in the areas where they are working becomes worse," Patel said. Patel added, however, that the World Bank and the majority of donors would remain in the country working towards poverty eradication. "There is no scenario for stopping what we are doing ... but if the situation improves the country can expect to get much more donor support," he said

Mexico

Mexico's Markets Outpace Big Markets

FT.com
May 10, 2004

Mexico's main stock market benchmark, the IPC, also known as the Bolsa, has gained 14.4 per cent in dollar terms so far this year, outpacing every big world market. It has outshone its main trading partner to the north, the US, which is roughly flat for the year.

Mexican equities have prospered for several reasons, not least the underlying strength of the US economy coupled with the flow of funds away from Brazil and Argentina, last year's big regional winners. The Mexican economy is closely tied to that of the US, which has seen the pace of recovery quicken since last spring. Trade data released last month showed Mexico's exports for March rising 20.4 per cent from a year ago.

Geoffrey Dennis, Latin American equity strategist at Citigroup, believes this progress will continue, pushing the country's markets even higher. He forecasts the IPC could reach 12,000 by the end of the year, 15 per cent up on current levels. And he expects good things from the Mexican economy as US manufacturing recovers. "What is vital for Mexico is US industrial production, which tends to suck in imports from Mexico and boost their production. This filters into the broader [Mexican] economy as export growth boosts employment and consumer spending," Mr Dennis explains.

Mexico's strength as a defensive option has also worked in its favor. Because the country's debt is investment grade, and it has a strong fiscal deficit, investors see it as safer than other emerging markets.

Slovak Republic

Dexia banka Slovensko website

Following the annual meeting of shareholders of Dexia banka that was held on 29 April 2004, Mr. Marc Lauwers was named the executive director and chairman of the [board of Dexia banka Slovensko](#). Additionally, Mr Jan Sladeczek was named a new member of the board of the bank valid from May 1, 2004.

Argentina

Argentina Announces New State Energy Company

FT.com
May 12, 2004

Argentina's government yesterday announced the creation of a state energy company, Enarsa (Energia Argentina S.A.) which will catalyze greater intervention in a sector hindered by years of underinvestment.

Speaking at a press conference on Tuesday night, Julio de Vido, the country's planning minister said: "The privatization process that was carried out in the energy sector has left the Argentine state totally unprotected." Mr de Vido said the new company would participate in oil and gas exploration and would also aim to offer a range of products and transport infrastructure. The national government would hold 53 percent of the company's shares, with an additional 12 percent to be held by the country's provinces. The remaining 35 percent would be offered to the private sector through the stock market.

The government hopes the measures will resolve what has emerged as one of the biggest immediate threats to recovery since the economy collapsed in December 2001. However, some speculate the new company could have a negative impact on the growth prospects of neighboring countries such as Chile and Uruguay. Chile, in particular, relies on Argentine gas to meet its energy requirements. A recent decision by Néstor Kirchner, Argentina's president, to cut by more than 15 percent of gas exports to Chile has caused serious tensions between the two countries.

Rato Plans No Major Changes as New IMF Director

WashingtonPost.com
May 12, 2004

Rodrigo Rato, the new managing director of the International Monetary Fund, stated his intention yesterday to maintain the approach set by his predecessors. At his first Washington news conference since being named to the position, Rato said that "overall, the work of this institution has been very good." Countries that borrowed from the fund and followed its advice, he said, were generally in a "much better position today." New heads of the IMF and World Bank have sometimes embarked on the job with plans to take their institutions in new directions, but Rato, a former Spanish finance minister, suggested he is not inclined to depart much from past policies.

Rato did name one instance in which he thought the IMF had erred, urging reporters to read a report by the fund's staff on the collapse of the Argentine economy in 2001-2002. The report acknowledged that the IMF was too lax in allowing Argentina's debt to mushroom in the late 1990s and suggested that the fund shouldn't have lent more money to Buenos Aires in mid-2001, when its debt burden and currency policy were becoming impossible to maintain. Quoting his immediate predecessor, Horst

Koehler, Rato said the IMF "is a learning institution" that is capable of drawing lessons from such episodes.

India's Elections May 2004

- Laura Robinson

In an election upset, the Congress party won the largest number of seats in the 543-seat lower house, or Lok Sabha. Sonia Gandhi's government coalition, called the United Progressive Alliance, brings together the Congress, Communist and regional parties that unexpectedly defeated the ruling Hindu nationalist BJP in general elections. Congress, as the leader of the coalition and the largest party in parliament with 145 seats, could claim most of the ministerial roles in a new government.

Atal Behari Vajpayee, India's prime minister and leader of the Hindu nationalist Bharatiya Janata Party-led coalition, resigned on May 13 after India's rural voters delivered a stunning backlash against his government in favor of the main opposition Congress party. It was predicted that Sonia Gandhi, the leader of the Congress Party would be nominated as India's 14th prime minister. However, the nomination failed to materialize and Gandhi announced to her supporters May 18 that she would "humbly decline" the post of prime minister of India, and step down as parliamentary leader of the Congress party, due to concerns raised about her Italian birth. Manmohan Singh, an Oxford-trained economist was appointed by Ms. Gandhi as a replacement.

The election outcome is an unexpected turn of events for the BJP which held the elections six months early in an attempt to capitalize on a "feel good" mood arising from peace talks with rival Pakistan, a bountiful monsoon, and growing prosperity in the cities. But its campaign, called "India Shining", backfired among India's voters, most of whom live in rural states, and depend on subsistence agriculture. While well-educated urbanites were dazzled by the BJP's "India Shining" campaign, one-fourth of the rural population is still miserably poor. India's per-capita income has jumped from US \$370 to \$480 in just four years, but it's still one of the world's lowest.

Mr. Singh has announced the new government will have six priorities including a target of 7 to 8 percent annual economic growth - to be achieved by greater public and private investment in infrastructure, reduction of fiscal deficit and higher foreign investment in technology, services and export-based industries. In a concession to the coalition's communist allies, Mr. Singh ruled out further privatization of profit-making state companies or any changes that would make it easier for employers to hire and fire labor. In addition, the new government will review last year's electricity act, which permitted the unbundling of transmission, generation and distribution

Economic analysts have been closely watching the election events. The focus on helping India's poor - the pillar of Congress' election campaign - has led some analysts to express concern that economic growth could be jeopardized and the country's budget deficit could balloon. In addition, the Communist Party of India-Marxist holds 43 seats, and its opposition to further privatization reforms has also made financial analysts jittery.

The stock market has reacted in response to the election furor. India's benchmark Sensex index plunged immediately after vote counting began, falling about 2 percent in response to fears of political instability and stalled economic reforms. But markets rebounded as results indicated a Congress party victory, pushing the Sensex up 31.53 to 5,389.88 on May 13. Ahead of the news of Singh's potential nomination, Indian stocks rose 8 per cent on May 18th. The Bombay Stock Exchange Sensitive index, or Sensex, closed up 8.25 per cent to 4,877.02 while the broader National Stock Exchange index advanced 8.3 per cent at 1,503.95. The economic result of the election is likely to be a lengthy period of horse-trading over policies and portfolios, which could put at risk the privatization program and other reforms.

FT.com, CNN.com, BBCWorld.com

SPOTLIGHT



- Steven Thomas

The Virginia Resources Authority is a successful pooled finance facility that lends to localities throughout the Commonwealth of Virginia for infrastructure projects. Its outstanding credit rating on bonds issued and flexible lending terms make it a good example of how pooled finance facilities can operate.

Location	Richmond, Virginia, United States
Date Founded	1984
Initial Financing	Counties, Cities, Towns, and Regional authorities
Legal Status	State Agency
Total Current Lending	US \$1.5 bn (bond bank); US \$94.9 mn (pooled finance facility, 2003)
Credit Rating (Moody's)	Aaa
Staff (approx.)	11
Chairman	William G. O'Brien
Executive Director	Darrell V. Hill

Historical Background to the fund

Created by the Virginia General Assembly in 1984 as a bond bank, VRA's role has expanded to cover a wide range of infrastructure financing options for local governments. In response to interest expressed by local governments, VRA created a pooling program to finance projects for several localities utilizing a single, defined pool of loans. In December 2003, VRA issued its inaugural pool of a newly structured pooled loan program, the Virginia Pooled Financing Program (the VPPF), dramatically improving the savings attained for its Pooled borrowers.

Fund Objectives

"The Virginia Resources Authority (VRA) is the choice provider of infrastructure financing for Virginia's local governments, large and small. Our primary focus is on the needs of Virginia's localities: we strive to be the most flexible and responsive provider of public financing in the Commonwealth."

Primary Activities

- Different functions of the VRA include the Virginia Pooled Financing Program, Virginia Airports Revolving Fund, Virginia Water Facilities Revolving Fund, Virginia Water Supply Fund, and Interim Financing programs.

Ownership, Structure and Operation

- The VWFRF is co-managed with the Department of Environmental Quality (DEQ), Water Division; the VWSRF is co-managed with the Virginia Department of Health, Division of Water Supply Engineering. In addition, VRA co-administers the Combined Sewer Overflow Matching Fund with DEQ.
- Funding for the VWFRF and the VWSRF is provided by grants from the Environmental Protection Agency that require a state match. Loan application packages are available from the respective co-managing agencies.
- Funding for the VARF comes from the General Assembly alone; VRA serves as financial administrator, with the Virginia Department of Aviation as the program manager.
- The board of the VRA is composed of representatives from local governments in Virginia; financing institutions; engineering firms; and related state agency heads.

Borrowing

- VRA funds have financed over 350 wastewater, drinking water and airport projects.
- Over 175 Virginia municipalities, counties, and agencies are VRA clients.
- The borrowing conditions for the VWFRF are a 20-year maximum loan term with three types of loan security accepted: general obligation, revenue pledge, combined pledge
- Borrowing conditions for the VWSRF are a 30-year maximum loan term with three types of loan security accepted from local governments: general obligation, revenue pledge, combined pledge; security varies for private waterworks and some state grants available.

Bond-holder Benefits & Security

- For most localities, the program will offer among the most attractive interest rates in the market. This, coupled with the savings in issuance costs, means all Virginia localities can benefit from the new program.
- Sharing the costs of issuing the bonds with other localities means lower costs of issuance. Savings, on average, will exceed 70 percent or more compared to a single-project financing.
- The strong financial status of the Virginian municipalities, along with funding from the state and the U.S. Government, has contributed to Moody's Investors Service assigning the VRA an Aaa rating.

Performance

- VRA completed its inaugural issue of the Virginia Pooled Financing Program (VPFP) in December, 2003. Nine localities and service authorities took advantage of the new pool program issue structure that resulted in a blended "AAA/AA" rating from both Moody's and Standard & Poor's rating agencies. This rating derives from the ability of the VRA to withhold state aid to municipalities to cover payments to bondholders. Under this structure, there are no bond insurance premiums, no bond rating agency reviews, and a 70% issuance cost

savings by sharing the cost with other municipal borrowers.

- VRA has an Operating Reserve Fund (for Senior Bonds) equal to \$5 million, and a Capital Reserve Fund (for Subordinate Bonds) equal to \$8 million.
- The VRA has issued over \$1 billion of bonds for infrastructure projects. The current VPFP issue totals \$114.85 million.
- VRA Pool Bonds have a True Interest Cost of 4.11%, which is lower than that of Stand-Alone AAA Insured bonds.

Credit Criteria

- Applicants for the Virginia Water Facilities Revolving Loan Fund are initially considered for an interest rate of 3% up to the program's ceiling rate as established yearly. The yearly ceiling rate is designed to remain 1% below the current market rate for a 20-year AA rated revenue bond issue in the State and is adjusted to remain no less than 1% below the municipal bond market rates at the time of loan closing. Interest rates below 3%, and down to a no-interest loan, are considered where financial conditions warrant and where at least 75% of the project loan need is applicable to resolving mandated water quality problems, and/or where an imminent or urgent public health situation is documented.
- Applications for all VRA projects are considered by the VRA Board.

In Case of Default by a borrower

In case of a loan default, the VRA can choose to withhold state aid from a locality and redirect those funds to pay bondholders. This security allows for the exceptional borrowing rates VRA bonds receive. It also makes tax increases in taxes for municipalities unnecessary.

Project Examples

Projects include:

- Drinking water
- Wastewater
- Solid waste
- Airports
- Public safety
- Brownfields
- Petroleum storage tanks.

More information from the website www.virginiareources.org

Development Bank of Southern Africa

- Laura Robinson

Historical Background

The Development Bank of Southern Africa (DBSA) was established in 1983 by the government of the Republic of South Africa, to act as one of five existing development finance institutions in South Africa. The DBSA has a mandate to accelerate sustainable socio-economic development in the region by funding physical, social and economic infrastructure.

The DBSA endorses and promotes human resource development and institutional capacity-building. Additionally, the Bank finances and sponsors programs designed to address the social, economic and environmental needs of the people of southern Africa in improving their quality of life. Following a recent transformation at the DBSA, the institution began moving away from being solely focused on development finance and has become a key national development institution having a threefold role as lender, advisor and partner.

In February 2001, the Board of Directors of the Development Bank approved the establishment of a Development Fund, which was incorporated into the DBSA in December 2001. The primary goal of the Development Fund is to maximize the impact of development finance primarily at the municipal level by mobilizing and providing grant funding to address human, institutional and financial constraints on rural and urban development, thereby promoting efficient and effective service delivery and local economic development.

Location	Midrand, South Africa
Year founded	1983
Legal Status	One of five development finance institutions in South Africa established by the government of the Republic of South Africa
Chief Executive	Mr Mandla Gantsho – Managing Director
Municipalities served	The DBSA operates in the 14 countries of the Southern African Development Community (SADC). It has established the following geographical business units: <ul style="list-style-type: none"> • Gauteng, Free State and North West • KwaZulu-Natal and Mpumalanga • Western and Northern Cape • Eastern Cape • Limpopo • International Finance: Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, Swaziland, Tanzania, Zambia and Zimbabwe
Total Fund Assets	Approx R 21,000,000
Main sectors of lending	Infrastructure lending including energy, roads, water and sanitation, and, multiple municipal services.
Distribution of cumulative loan and equity approvals:	Internal reticulation infrastructure 39% Bulk and connector infrastructure 37% Social and institutional infrastructure 14% Entrepreneurial support 10%
Staff (approximately)	436

Objectives:

The primary objectives of the DBSA are to promote the acceleration of sustainable socio-economic development in the region through the funding of physical, social and economic infrastructure and finance programs to address the social, economic and environmental needs of people of Southern Africa.

The Bank emphasizes the role of partnerships in maximizing the impact of development interventions. The DBSA draws partners from a wide spectrum of development stakeholders, such as national governments, provincial and municipal governments, the private sector, bilateral institutions, multilateral development agencies, community-based organizations and non-governmental organizations.

The vision of DBSA is to become a Knowledge Bank, a Center of Excellence that can provide not only loan funding but a value-added package of knowledge products and services that would maximize the development of its investments.

The DBSA provides comprehensive services to clients in the areas of:

- Making direct loans available at its prevailing interest rates for infrastructure;
- Taking up an equity stake in infrastructure development, where appropriate;
- Providing guarantees, where appropriate, to leverage private sector support by reducing the perceived risk of investment;
- Offering a bridging financial facility to cater for the market gap regarding integrated housing, health, educational and related bulk and reticulated infrastructure;
- Acting as a merchant bank to package risk appropriately, as well as the consequential investment and returns, in close collaboration with the private sector, government and other agencies;

The DBSA Development Fund promotes local economic development and infrastructure building through the following ways:

- Capacity building funding through grants, development credits and other financial instruments.
- Consulting and advisory services for institutional and human capacity building to ensure that basic services are delivered to disadvantaged communities.
- Ongoing technical support and sharing of knowledge to ensure that clients gain the necessary experience to manage the functions and processes of service delivery.

Responsibilities

DBSA plays a triple role of lender, advisor and partner, by mobilizing finance and expertise for development projects. The majority of these projects provide communities with access to affordable basic services such as water and sanitation, transport, electricity and communication. The DBSA also funds projects that support social, institutional and economic infrastructure development.

Supervision

The DBSA is supervised by the DBSA Board of Directors. The DBSA Development Fund is supervised by the DBSA.

Organizational Structure

DBSA Executive Management:

- 1) Board of Directors
- 2) Chief Executive Officer/Managing Director

The strategic business focus, core governance values and organizational systems of the DBSA are directed and controlled by an independent Board of Directors. The Board is appointed by the shareholder representative and consists of not fewer than ten and not more than 15 members. Currently, the Bank has a unitary Board of 14 members, with a non-executive Chairperson and the Managing Director as the sole executive Director. The Board appoints the Chairperson with the consent of the shareholder representative.

The Board reports to the shareholder by way of annual and interim reports, and regular meetings between the Chairperson of the Board, the Chief Executive Officer, and the Minister of Finance.

Capital Sources:

The DBSA is a self-funded institution and raises its funding from domestic and international capital markets, bilateral and multilateral development institutions, and internally generated resources. The Bank has access to a capital facility of R4,8 billion, which is part of its capital structure. The terms and conditions of providing DBSA loans and products are specified for each project, thereby maximizing the bank's flexibility in response to the needs of clients.

The DBSA provided a grant fund of R80 000 000 for the initial capitalization of the DBSA Development Fund and continues to fund its operation today. According to Fitch ratings, the national long term credit rating of DBSA is AAA and the national short term credit rating is F1+.

DBSA Projects

Advisory and Technical Assistance

The DBSA has approved grants of R124,5 million. In addition to these grants, the Bank's advisory role has included knowledge support and agency services.

Knowledge Management

During the year, the DBSA provided policy and information support to its clients and the broader development community, including the following:

The DBSA

- Helped the Department of Provincial and Local Government to manage a local economic regeneration study.
- Compiled 13 socio-economic profiles, which were supplied to the National Treasury to assist them in developing a strategy on Municipal Finance Management.
- Assisted in the creation of a policy framework on the transfer of water schemes from the Department of Water Affairs and Forestry to local municipalities.
- Provided strategic advice to the Northern Cape Department of Economic Affairs and Tourism on a provincial development strategy and the establishment of a provincial development agency.
- Advised the Free State provincial government as a member of the Premier's Economic Advisory Council.

Agency Services

The Agency Services Unit provides the platform for the DBSA's programmed support for a development implementing and enabling mechanism which is designed to provide capacity, the Bank's extensive corporate infrastructure, and its development

knowledge and expertise to development stakeholders for planning, programming and management of development initiatives. The Bank currently has 22 agency projects with a value of approximately R500 million in funding.

These projects include:

- Joint ventures
- Independent contractor assignments
- Management contracts

Products and services provided by the Development Fund include:

- *Funds*- Capacity building funding through grants, development credits and other financial instruments;
- *Expertise*- Consulting and advisory services for institutional and human capacity building to ensure that basic services are delivered to disadvantaged communities; and
- *Development Facilitation* - Ongoing technical support and sharing of knowledge to ensure that clients gain the necessary experience to manage the functions and processes of service delivery.

Since its inception, the Development Fund has provided support to 134 municipalities in all nine provinces of South Africa. This consisted of assistance in the areas of planning, capacity building, training, and local government systems. Support was also provided to small, newly established municipalities, and ranged from the basic training of staff to issues of local economic development. Additionally, the Fund has approved grants valued at R86,0 million since its inception. Of the municipalities that received support, 77 percent were rural.

**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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