

IADF BULLETIN



FINANCING LOCAL GOVERNMENT

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IADF News

By Kathy Shandling, Acting Executive Director, IADF

I am pleased to join the team of IADF as the acting Executive Director in addition to my duties as the Executive Director of the International Private Water Association (IPWA).

IADF looks forward to developing and expanding the current information resources offered to its members – the monthly newsletter profiling individuals and funds focused on local infrastructure financing/development initiatives, the database profiling specialized municipal lending institutions and/or specialized municipal funds, and the IADF website complete with links to other appropriate internet sites and papers focused on the topics of financing, guarantee instruments, local capital markets development, etc.

IADF also continues to form partnerships with other organizations/associations to better facilitate the dissemination of information about new financial tools, new government initiatives, and new institutional (IFI's) programs that can contribute to the implementation and long-term sustainability of more localized in-country financing options for funding infrastructure projects in developing economies.

IADF encourages any feedback on our current initiatives. If you have any comments about the newsletter, the database, or the website; and if you have any suggestions about new initiatives or topics for future roundtable programs and conference forums, please do not hesitate to contact me at kshandling@developmentfunds.org

Kathy Shandling
Acting Executive Director
International Association of Development Funds (IADF)

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: Kristyn Oldendorf

Croatia: EBRD Provides €10 Million Loan for Wastewater Treatment Plants

European Bank for Reconstruction and Development, May 13, 2005
<http://ebrd.com>

The European Bank for Reconstruction and Development (EBRD) is providing a 10 million Euro loan to Karlovac, in central Croatia, for the construction of a wastewater treatment plant. Nearly 80,000 people live in this region with practically no wastewater treatment facilities. This loan will be granted to the Karlovac Water and Sewer Company, which will enter a service agreement with the city.

Croatia's involvement in the European Union accession process has caused it to focus more on compliance with EU environmental requirements. Because of this process, Croatia is eligible to apply for grant funding from EU ISPA (Instrument for Structural Policies for Pre-Accession) funds to supplement the wastewater treatment plant project. The ISPA funds will finance improvements to the water and sewer systems, installing new sewer collectors and lines and replacing a series of pipes, which were laid in the 1930s.

Inter-American Development Bank: "Towards a Transparency Culture" Seminar in Guatemala City

Inter-American Development Bank, May 12, 2005
www.iadb.org

The Inter-American Development Bank, the United Nations Development Program, and the governments of Guatemala and Norway will organize an international seminar, "Towards a Transparency Culture," which will be held in Guatemala City, May 26-27. This seminar will focus on creating policies for cultures of transparency through culture, media, and education.

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It will be opened by Guatemalan President Oscar Berger; Finance Minister María Antonieta del Cid de Bonilla; IDB Executive Vice President Dennis Flannery; and the Guatemalan Presidential Commissioner for Transparency and Anti-Corruption Hugo Leonel Maul Figueroa.

The seminar's organizers recognize the need for a culture of transparency in the development sector and hope that the seminar, which includes participants from many international, national, and regional organizations, will promote this cause.

Participants will analyze international best practices and various transparency models. Examples of participants include former Chilean President Patricio Aylwin; the Vice President of Transparency International Rosa Inés Ospina Roblado; the Director of the Governance Institute in Canada Marc Saner; the IDB's State and Civil Society Division Chief for Central America and Mexico Jorge Sapoznikow; the Representative of UNDP in Guatemala Juan Pablo Corlazzoli; and the Ambassador of Norway in Guatemala Rolf O. Berg

United Nations: Need for Increased Role of Government in Infrastructure Development

World Bank, May 9, 2005

www.worldbank.org

The UN Commission of Sustainable Development presented its final statement on April 28, concluding that access to safe drinking water, basic sanitation and adequate shelter depends on the governments' role in promoting it. The Commission stated that water security must be achieved with investment in infrastructure and adept management.

"Water security is achieved when water underpins economic growth, rather than undermining it – or, in other words, when the net impact of water on growth is positive. The tipping point in achieving water security will be the acquisition of a 'minimum platform' of management capacity and infrastructure investment," notes a recent World Bank report on **"Water Security, Growth and Development."**

Investment in both infrastructure and management is needed for sustainable development. In countries with very little infrastructure, the investment should primarily be focused on building infrastructure. As infrastructure becomes more advanced, the investment focus should be shifted to developing institutions and management to support it.

Morocco: Islamic Development Bank Approves \$9.94 million Loan for Water Supply Project

Islamic Development Bank, May 9, 2005

http://www.isdb.org/english_docs/idb_home/cgi-bin/busopp.cgi

The Islamic Development Bank (IDB) approved a loan on May 9, 2005 to help finance a Water Supply Project for Berrechid and Taza Rural Communities in Morocco. The project will improve both living and environmental conditions. In Taza Province, the focus will be on raising access rates to potable water in rural areas. In Berrechid Province, the project will focus more on expanding the current water supply for urban and rural areas, with the long term goal of meeting projected water demand up to the year 2030.

The project has a total projected cost of \$35.21 million, of which \$5.13 million is being financed by the National Office for Potable Water (ONEP). IDB will finance the other \$30.08 million. Of this, \$9.94 million will be in the form of a loan, and \$20.14 million will be in the form of an Istisna'a contract, a type of financing contract used for industrial and construction projects. The project will span

from 2005-2008, and The National Office for Potable Water will act as the executing agency.

Asian Development Bank: Annual Meeting Focuses on Change and Renewal

Asian Development Bank, May 6, 2005

www.adb.org

Istanbul, Turkey hosted the Asian Development Bank's (ADB's) 38th Annual Meeting of the Board of Governors, which lasted three days and included delegates from all of ADB's 63 member countries (45 of which are in the Asian and Pacific region), such as business people, government officials from economic and finance planning departments, academics, ministers, investment bankers, journalists, and representatives from nongovernmental organizations.

ADB has made positive recent changes, including the creation of an Integrity Division to improve transparency and anti-corruption, the creation of a Results Unit to monitor implementation of agendas, the creation of an Office of Regional Economic Integration, and plans to create an independent risk management unit.

During the meeting, Governors concluded that despite recent strong growth in Asia and the Pacific, economic and social inequality remains an issue, and economic challenges must be met to enable future growth in the region. The Governors discussed how ADB should address such pressing issues as fostering economic growth, addressing Asia's major infrastructure needs, supporting accountable governance, and promoting the private sector as a promoter of economic growth.

Governors recommended that ADB further foster regional cooperation, economic integration, and efficient financial integration, work with governments and the private sector to meet infrastructure needs, streamline procedures for financial assistance, develop new lending instruments, ensure that its products and services are cost-competitive, and promote an increased private sector role. They stressed the need for ADB to implement internal reforms and improve its transparency and accountability.

In his closing address on May 6, 2005, Haruhiko Kuroda, the ADB President, pledged ADB's commitment to reaching internal institutional improvements, reducing poverty in the Asian and Pacific region, and meeting the Millennium Development Goals.

The 39th Annual Meeting of the Board of Governors is to be held in Hyderabad, India, May 4-6, 2006; and the 40th Annual Meeting is to be held in Kyoto, Japan.

U.S. Environmental Protection Agency: Free Technical Assistance to Communities

Environmental Protection Agency, "Watershed News," April 2005
<http://www.epa.gov/win/news.html>

The U.S. Environmental Protection Agency is giving communities the opportunity to apply for free technical assistance to help them learn practices for developing and meeting their infrastructure goals. EPA wants to focus on the transition from principles to practice, to create real results.

The Development, Community and Environment Division in EPA's Office of Policy, Economics, and Innovation is accepting applications from communities looking for either assistance with policy analysis, including reviewing state and local codes, transportation policies, etc., or with public participatory processes, including alternatives analysis, visioning, etc.

State, regional, local, and tribal governments are eligible to apply, as are nonprofit organizations that have had a partnership with a government entity. The EPA encourages coastal communities in particular to apply.

Selected applicants will receive assistance from a team of multidisciplinary experts organized by EPA and other national organizations, which will work with community leaders. The assistance is not provided through a grant, but rather an Agency contract vehicle.

The EPA will prioritize communities that have previous knowledge of smart growth and want to implement the principles into practice. The applicant must have a specific project, which they can describe in their application.

The EPA plans on assisting four to six communities, which will be announced in spring 2005, and will work with these communities over a twelve month period.

The deadline for applying is May 19, 2005. For information and materials on applying, go to http://www.epa.gov/smartgrowth/sg_implementation_rfa.htm

Senegal: BADEA Approves \$11.4 Million Loan

Arab Bank for Economic Development in Africa, April 7, 2005
<http://www.badea.org/en/20050407-3.html>

The Arab Bank for Economic Development in Africa (BADEA) and the Republic of Senegal signed a loan agreement on April 7, 2005, for \$11.4 million to finance a storm water drainage system for Pikine Town. This system will improve health and living conditions with better drainage, reducing the risk of epidemics. The loan has an annual interest rate of 1% and a 30 year repayment period, with a grace period of 10 years.

Attendees of the signing included H.E. Mr. Mamadou SOW, Ambassador of the Republic of Senegal to the Arab Republic of Egypt; H.E. Mr. Ahmed Abdallah Al-Akeil, Chairman of BADEA's Board of Directors; and H.E. Mr. Medhat S. Lotfy, the Director General of BADEA.

Maldives: Asian Development Bank issues \$20 Million Grant

Asian Development Bank, March 31, 2005
www.adb.org

The Asian Development Bank approved a \$20 million grant from its Asian Tsunami Fund and a loan of \$1.8 million from the Asian Development Fund to aid the Maldives in repairing infrastructure damaged by the December 2004 tsunami.

The tsunami created about \$470 million in damage in the Maldives, which is equivalent to about 62% of the gross domestic product, with tourism and housing suffering from the largest direct damage.

The ADB assistance will have a \$6.5 million quick disbursing component to meet general rehabilitation and construction expenses, as well as a \$15.3 million grant component to rehabilitate high-priority infrastructure, facilities, equipment, and working capital. This includes the sectors of water supply, sanitation, and solid waste management, transportation, power, fisheries, and agriculture.

A joint needs assessment, which received input from the government, private sector, non-government organizations, and civil society targeted priority projects for rehabilitation.

The project, which is to be executed by the Ministry of Finance and Treasury, is due for completion in March 2007.

Vietnam: Asian Development Bank Approves Grant to Vietnam for TA in Water and Sanitation

Asian Development Bank, March 14, 2005
www.adb.org

The Asian Development Bank approved a technical assistance grant of \$950,000, from the Japan Special Fund, for a project to improve water supply and sanitation in the southern Central region of Vietnam.

This grant, funded by the Government of Japan, will create a design for the project to improve supply in 10-20 small and medium towns in one of the poorest areas of Vietnam.

To ensure a demand-driven aspect, the project will include a participatory approach, utilizing workshops and meetings involving stakeholders to encourage wide-spread participation and support.

The project will assess the capacities of water supply and sanitation providers and will provide for new water supply systems, rehabilitation and improvement of existing systems, and sanitation improvements, such as drainage, sewage disposal, and solid waste management.

Compliance with social and environmental safeguards is a priority. The project, which is to be executed by the Ministry of Construction, will be carried out over eight months, ending in October 2005.

INTERVIEW

George Matovu, Regional Director, Municipal Development Partnership for Eastern and Southern Africa (MDP-ESA)

Conducted by Sophie Guiny

1(a). What is the Municipal Development Partnership? Why was it created?

The Municipal Development Partnership is a not-for-profit, demand-driven organization whose mission is to promote and support processes of decentralization, strengthening the capacity of local governments to deliver services and promote development at local level, as a means toward raising the standard of living of local population in Sub-Saharan Africa. MDP was established by the World Bank in 1991 and gained an autonomous status in 2001. It currently has an eleven member Board of Directors, drawn from Eastern and Southern Africa, who represent various sectors of local governance.

MDP-ESA has a core of eight professional staff and four support staff led by the Regional Director. The team includes urban planners, a geographer, an economist, a financial expert, a human resource expert, and a management expert. Each professional staff has under his/her portfolio and coordination a world wide web of associate consultants who assist in carrying out activities at national and regional levels.

MDP-ESA operates in 25 countries but is usually active in 10 to 13 countries at any one time.

1(b) Why was it created?

The justification for establishing MDP was based on the desire to fill a gap to promote integrated municipal capacity development and foster community participation in decentralisation processes and municipal management. MDP was seen as an appropriate vehicle for fostering sustainable development and reduction of poverty at municipal level.

2(a). Why are there two regional offices?

The founding fathers of MDP at the Porreta Terme Conference underscored the diversity of African local governments, especially between Anglophone and Francophone Africa. It was therefore decided to create two units of the organization. The West African module (covering West and Central Africa), dominated mainly by the French-speaking countries, covers 23 countries, with its headquarters initially in Lome, Togo and later on in Cotonou, Benin Republic. This unit of MDP goes by its acronym PDM (Partenariat pour le Developpement Municipal). The East and Southern Africa unit covers 25 mainly English-speaking countries, and its headquarters is in Harare, Zimbabwe. The unit goes by the acronym MDP-ESA (Municipal Development Partnership for Eastern and Southern Africa).

2(b) Do they collaborate?

Yes, MDP-ESA and PDM collaborate in implementation of activities that cover both regions. The case in point is the Africa Local Governance Program funded by the Federation of Canadian Municipalities (FCM), and the Africities.

3. What are MDP-ESA's objectives?

The objectives of MDP-ESA are:

- a) To provide a platform for analyzing, debating and promoting policy leading to more democratic and responsive governing structures at local level.
- b) To build capacities of local government and their associations to plan and deliver mandated services effectively.
- c) To help municipal leaders and civil society through participatory processes, accord priority to policy issues on human development such as urban poverty, gender disparities environmental degradation, vending, urban agriculture, and informal settlements.
- d) To act as a catalyst for improving communication and generating consensus among African institutions, NGOs and international development agencies.
- e) To promote south-south, north-south, north-south-south, and inter-municipal partnerships through decentralized cooperation and exchange of experiences.
- f) To complement and support regional initiatives relevant and aimed at transforming local government.
- g) To compile and disseminate best practices.

4. Who are your members?

MDP-ESA is not a membership organization as such but has a constituency of local governments and their elected officials, technical and administrative staff, as well as associations of local government authorities who benefit from a complete range of activities implemented by MDP-ESA. To the extent that it is essential to strengthen local governments, MDP-ESA also supports central and local government institutions responsible for

decentralization; institutions that provide training and support to local governments; and non-governmental and community based organizations.

5(a). What is the current situation of municipalities in Easter and Southern Africa?

Municipalities in Eastern and Southern Africa portray a mixed picture and contradictions. Without exception, municipalities in the region are now positively looked at as engines of economic growth and development. They are considered places of opportunities where the youth can get rewarding jobs or start profitable enterprises. In political terms, municipalities are increasingly enjoying autonomy within the confines of national laws. Local democracy with regular elections has been embraced as a dominant strategy for citizen participation, effective allocation of resources, partnership development and sustainable development. Many municipalities are experimenting with good governance principles with very encouraging results. Indeed, because of increasing transparency, some municipalities are beginning to produce better citizens.

However, the image of many African municipalities is that of run-down infrastructure service, over crowded and unplanned settlements / slums, over crowded informal sector, and piles of uncollected garbage.

Many municipal governments are not only failing to provide the traditional services such as clean water, sanitation, housing, and infrastructure, but are also faced with challenges of managing HIV and AIDS and related diseases, increasing urban poverty, crime, inner city conflicts and violence, extreme low levels of environmental hygiene, and social vices such as prostitution, drug pushing, juvenile delinquency, and the emerging problem of street children orphaned by the HIV and AIDS epidemic, particularly in poor communities. In some municipalities, as high as 35% of the urban population lack access to clean and safe water; as high as 40% do not have access to health services; and as high as 70% lack access to basic sanitation. As a result of such conditions, municipalities are experiencing rapid deterioration of health conditions and resurgence of preventable diseases such as cholera, diarrhea, dysentery, tuberculosis.

The current difficult situation of municipalities is made worse by overwhelming urbanization rate. The failure of rural development policies of post independent Africa and tribal or ethnic conflicts are driving people into cities at an unprecedented rate. As observed by the UNHABITAT, Africa is urbanizing faster than any other continent at a time when there is very little investment in urban development or infrastructure. 37% of the African population now lives in cities and towns, and this figure is set to rise to 50 % within the next 20 years. It is estimated that the result of this unprecedented urbanization is that 72% of the urban population of Africa lives in slums under appalling conditions.

5(b) Is decentralization improving?

It is often difficult to speak with certainty when answering this question because of dearth of information on the African scene. However, going by some general indicators, I would say with some confidence that decentralization is improving, especially as more and more countries have come to embrace it as a strategy for good governance and local development. Leaders are beginning to appreciate that strong decentralized local governments are an essential ingredient for development. Various countries have clear-cut policies on decentralization and have gone ahead to entrenched decentralization and local government in national constitutions supported by various legislations. This is a huge leap that could not be entertained in the past. The extent of decentralization as measured by the indices of political, fiscal and

administrative control, in many countries, central governments have passed on responsibilities to lower levels of government, local institutions, and private sector principally to foster effective accountability and more efficient service delivery. Many governments have now specific policies requiring sector decentralization and devolution in areas of education management, health delivery, infrastructure provision, and road construction and maintenance. Decentralization is being deepened and strengthened by introducing more meaningful and effective methods of community participation especially in decision making and monitoring application of financial resources. The practice of participatory budgeting is gradually becoming the norm in several municipalities in Sub-Saharan Africa. A key development is the acceptance that decentralization must be accompanied by civil society empowerment.

5(c) What are the biggest challenges?

Decentralization has proven to be not an easy process free of problems and challenges, particularly when both human and financial resources are continuously in short supply. The biggest challenges facing decentralization in Africa today include:

- How to establish the institutional and human capacity of the municipal governments to cope new demands and without interfering with their autonomy as stipulated by the constitution and law
- How to minimize central political interference and prevention of the constant desire to recentralize
- How to re-orient central bureaucrats toward supporting decentralization and to give up resources for municipal control
- How to clearly delineate the powers and function between various levels of government
- How to fight corruption and abuse of office

6. What has been your biggest achievement?

The interface and interaction between MDP-ESA and high level policy makers like mayors, ministers responsible for local government and decentralization, parliamentarians, and professional local government practitioners has established in the region a network and forum for serious dialogue on local government issues, opportunities and challenges. This has enabled MDP-ESA to meaningfully extended the debate on decentralization and local government issues across the region and sectors, resulting in better understanding of how to manage change, foster good governance and related reforms. Through these debates and exchanges, MDP-ESA has seen clear policy shifts in central-local government relations, gender integration in local governance and development, incorporation of environmental concerns in municipal management; the role of the private sector in service provision; changed attitudes towards HIV/AIDS pandemic, informal sector and urban agriculture, and increased appreciation of partnership and inclusion in urban governance of the poor and vulnerable group through more open city-wide consultations facilitated by MDP-ESA. In addition it has taken the capacity building and awareness raising a notch higher to the centre of decision making. Ministerial and mayoral conferences and seminars have enabled MDP-ESA to link activities to policy and legislative reviews. MDP-ESA has fostered ministerial Declarations on (i) Decentralization and Governance (1999 Victoria Falls Declaration); (ii) Urban Agriculture (2002 Harare Declaration); (iii) Decentralization and Local Economic Development (2003 Mombasa Declaration). One of the outcomes of these interactions is the convictions by all key actors and stakeholders that municipal governments need to be adequately funded to be able to effectively deliver services.

In addition, MDP-ESA has developed tools and instruments which reform-minded municipalities are beginning to adopt. These include: participatory budgeting and planning; service delivery surveys; city consultations; and outcome mapping to mention a few. These tools are spreading through city-to-city cooperation and are becoming effective tools for institutional capacity building.

7. Gathering best practices is an important objective for MDP-ESA. Tell us about some good practices that have been developed and shared by African municipalities

Yes indeed, one of the MDP's mandates is to identify and share best practices with a view to promoting learning from innovations. The focus is on those best practices that promote know-how; capacity building; improvements in the delivery of services; community participation and empowerment; good governance; mobilization of resources; engagement of private sector.

Some of the best practices that have gained high currency include the following:

- Participatory budgeting that has helped municipal governments opening up governance and allocation of resources with involvement of citizens and stakeholder;
- Mainstreaming HIV and AIDS management in municipal operations through community conversation and establishment of transformational leaders;
- Mainstreaming gender in both elected and appointed positions;
- Integration of urban agriculture in urban planning and management;
- City Consultation, a tool that has been appreciated as effective in building a shared vision, gaining consensus on municipal issues and collecting developing an action plan.

Such practices have proven extremely essential in raising revenue, improving delivery of service, building partnerships, and promoting the spirit of volunteerism.

8. You provide support and training to municipalities. Give us a concrete example of these activities

As stated above, MDP-ESA has designed and implemented various training program in effort to contribute toward closing gaps in capacity areas. The following are some of the most popular training program:

- **Urban and City Management:** The objective of this course is to enhance and strengthen the capacity of municipal managers for them to be able to deal with modern challenges of local governments.
- **Intergovernmental Fiscal Relations and Local Financial Management:** The overall objective of the course is to discuss key issues in intergovernmental fiscal relations and municipal financial management and see how these can be used to alleviate poverty. The course provides participants with analytical framework and tools for understanding and implementing appropriate intergovernmental fiscal systems.
- **Strategic Planning and Local Development Course:** The purpose of the seminar is to familiarize participants with (i) issues of local economic development in the

21st Century; (ii) new thinking of local economic development; (iii) new policy approaches to local development; (iv) principal instruments of local development; and (v) roles played by various actors.

- **The Africa Local Government Action Forum (ALGAF):** This is a monthly program held every first of the month via video conferencing in collaboration with Distance Learning Centers in Ethiopia, Tanzania, Uganda, and Ghana, and with World Bank Missions in Kenya, Rwanda, and Zimbabwe. The main objective of the course is to provide an accessible and low cost platform for structured dialogue on key issues influencing local governments in sub-Saharan Africa.
- **Africa Municipal Development Digital Radio Training Program:** This is a newly designed program with support of the World Bank Institute. It is a distance learning course which delivers learning to municipalities in Africa using digital satellite radio. The primary objective of the AMDRP is to support local government capacity building and community empowerment through transmission of key information relating to: (i) anti-corruption; (ii) participation; and (iii) fiscal decentralization. The first program on anti-corruption is set to on air on April 19, 2005.
- **Management Course for African Mayors:** The objective of this course is to facilitate African mayors to learn how to engage residents in municipal affairs meaningfully and to increase their capacity to deal with a myriad of issues confronting them as city managers rather than as ceremonial mayors.

9. What other activities does MDP-ESA work on?

Beside training seminars, MDP-ESA conducts, amongst others; ministerial seminars on thematic areas influencing decentralization and local government; coordinates multi-country participatory action research in areas related, amongst others, service delivery, poverty reduction, and urban agriculture; provides direct technical assistance to municipal government in areas of planning, finance systems, human resource management and development, service delivery surveys, promotes city-to-city technical cooperation; and promotes sharing of information through radio programs, seminars and workshops and internet.

**SPOTLIGHT:
California Safe Drinking Water State Revolving Fund (SDWSRF)**

[<http://www.dhs.ca.gov/ps/ddwem/SRF/srfindex.htm>]

By: Kristyn Oldendorf

Location	California, USA
Year founded	1996
Legal status	Department of the state government
Main sectors of lending	State Water Funds
Program Manager	Stephan A. Woods
Staff	20

Overview:

The California Safe Drinking Water State Revolving Fund (SDWSRF) was founded under the Federal Safe Drinking Water Act (SDWA) Amendments of 1996 to provide funding to Public Water Systems of California for the purpose of correcting infrastructure problems. The fund is administered by the Department of Health Services, which is responsible for regulating public water systems and monitoring drinking water safety. Due to lack of financial resources, many California water systems are having difficulty complying with new drinking water standards and requirements, so the State Revolving Fund Capitalization Grant program assists the systems with below-market interest rate loans. The SDWSRF is responsible for coordinating the grant. In addition to coordinating direct funding, SDWSRF administers 'set-aside' programs for infrastructure improvement, such as source water assessment and protection, water system capacity development, and technical assistance to small public water systems.

Objective:

According to the Manager of SDWSRF, Stephan Woods, the program works to "provide on-going funding to public water systems in order to make needed infrastructure improvements that ensure an adequate and reliable supply of safe, clean, potable drinking water to the citizens of the State of California."

Long Term Goals:

1. Ensure that public water systems provide an adequate, reliable supply of safe, clean drinking water
2. Fund projects on the Project Priority List
3. Ensure the revolving nature of the SDWSRF loan fund
4. Ensure that all public water systems achieve and maintain compliance with the Safe Drinking Water Act
5. Reduce cost of drinking water
6. Encourage consolidation of small water systems that lack capability to operate in a cost-effective manner

Structure:

The SDWSRF is under the California DHS, Division of Drinking Water and Environmental Management (DDWEM), and does not have a board of directors. The chief of the SDWSRF, Stephan Woods, is a civil servant appointed via the California State Government hiring process, and he reports to the Drinking Water Technical Programs Branch Manager, who then reports to the DDWEM. The SDWSRF has a SRF Committee as well as a Capacity Development Committee, which develops policies for technical assistance to small water systems.

Finances:

The DWSRF receives funding from the federal government, and, for the purpose of revolving fund loans, it receives matching state grants. For the year 2005, the federal government is providing a grant of \$84,847,500.00, broken down into: four percent for administration expenses, five percent for the Source Water Protection Loan Fund, two percent for the Small Water Systems Technical Assistance program, and \$2,000,000 for capacity development. This leaves \$73,514,275 to go to state revolving fund loans. Also, the State of California provided a grant equal to twenty percent of the government funding, or \$16,969,500, to go toward revolving fund loans. Estimated loan repayments in 2005, including principal and interest repayments, will be about \$5,000,000.

The Department of Health Services also receives funding from the sale of general obligation bonds. The March 2000 "Proposition 13" designated \$68 million from sale of the bonds to go toward the state matching fund, and \$2 million to go toward technical assistance to Public Water Systems. The State Treasurer sells the

general obligation bonds for SDWSRF, so the fund receives the same credit ranking as that given to the Treasurer.

However, the systems' needs far outnumber the available funding. Of the 514 projects currently on the Project Priority List (PPL), the SDWSRF is only funding about 14% of them each year, due to financial constraints. A survey conducted every four years by USEPA and the states indicated that California water systems would require about \$18.8 billion to make necessary improvements.

Programs:

The primary function of SDWSRF is to provide State Revolving Fund loans to publicly owned water systems in need of maintenance of drinking water and wastewater infrastructure. SDWSRF also administers the Safe Drinking Water Bond Law projects, which is meant to finance public water systems to meet drinking water quality standards as based on public health standards. The application process for Bond Law loans follows the same format as that used for State Revolving Fund loans. SDWSRF's main 'set-aside' project is the California Drinking Water Source Assessment and Protection (DWSAP) Program, which is meant to provide information to communities interested in developing local programs for protection of their drinking water sources. DSWAP is divided into the Source Water Assessment and the Source Water Protection.

State Revolving Fund:

Either a community water system, or a non-profit, non-community water system may apply for State Revolving Fund (SRF) funding, including school districts, water companies, villages, city districts, and community service districts. The funds can be used to plan, design, and construct water quality projects.

Six types of projects are available for funding: 1) Projects to address compliance to public health standards 2) Projects to replace aging infrastructure 3) Projects to assist systems affected by changes in the definition of a public water system 4) Land acquisition integral to meeting public health standards 5) Planning and design of a drinking water system 6) Consolidation of a public water system that does not meet State Drinking Water standards with an established fund that does.

Planning loans are limited to \$100,000 per project, while construction loans are limited to \$20,000,000 per project and \$30,000,000 per water system. Projects that exceed \$5,000,000 in eligible project costs are eligible for local matching.

Safe Drinking Water Bond Law Projects:

A series of Safe Drinking Water Bond Law initiatives were approved by voters between the late 1970s through the 1980s, with the purpose of providing funds to projects meant to enable public water systems to meet public health standards for drinking water. The State of California was authorized to sell \$1.97 billion in general obligation bonds, which are a valid and binding obligation of the State of California. Of the funds from the sale of these bonds, the State Water Resources Control Board allocated \$763.9 million to local projects in California to support safe drinking water, water quality, flood protection, and water reliability projects. A Committee determines the amount of bonds to be sold and issued, and how often to sell them. It is not necessary that all of the bonds authorized to be issued be sold at any one time. Of the original \$425 million in funding, \$1 million remains and is administered by SDWSRF. The maximum funding for a single project is \$400,000.

Drinking Water Source Assessment and Protection Program:

The DWSAP Program is meant to assess and protect local drinking water sources.

By evaluating public drinking water sources, Source Water Assessments identify the human-caused activities that provide threats to the sources. This information is used to initiate and prioritize Source Water protection. The Department of Health Services has completed assessments for nearly all the public water systems in the state with the assistance of the California Rural Water Association, 34 counties and, 500 water systems.

Source Water Protection (SWP) programs prevent contamination of potential or actual sources of drinking water, including ground and surface water, through both regulatory and non-regulatory measures. SWP loans can be used for "planning, preliminary engineering, detailed design, construction, education, land acquisition, conservation easements, equipment purchase, and implementing the elements of a source water protection program." SWP loans are limited to \$2,000,000 per project per year, and a maximum of \$3,000,000 per applicant per year.

Lending Terms:

SRF loans have interest rates ranging between 0 and 50 percent of the average rate paid by the State on general obligation bonds. Between the fiscal years 1998/99-2002/03, the average interest rate among 46 loans was 1.71%, and the average repayment period was 19.05 years, but the official length for repayment is up to twenty years. Of the 46 projects funded in the stated time frame, eight received loans of less than \$100,000, with the smallest at \$25,000, eight projects received loans between \$100,000 and \$500,000, three received loans between \$500,000 and \$1,000,000, and twenty-seven received loans greater than \$1 million, with the largest loan at \$20 million.

A schedule for repayments is created in the funding agreement, and late payments result in a penalty of one-tenth of one percent per day on the amount due. As of June 30, 2001, there was no procedure for handling uncollectible accounts, because the possibility had not occurred.

Ranking of Projects:

All possible recipients of State Revolving Fund aid must first be placed on a project priority list (PPL), by the DHS, which splits the projects into fifteen different categories, based on the type of project, and named by letters. For example, Category B contains projects needed "to correct coliform bacteria contamination of an active water supply source that is resulting in repeated violations of the coliform bacteria Maximum Contaminant Level (MCL)."

The projects in each specific category are then awarded ranking points based on various factors. Projects are ranked higher if they are affordable or contain consolidation; community and non-transient non-community water systems are ranked above transient non-community systems; and projects with the same amount of ranking points are then rated according to population served, with smaller populations being ranked higher priority, since they usually have a more difficult time obtaining state financing. SWP projects are ranked by similar standards, but the categories differ from those used for SRFs. Projects are then funded in descending order of their placement on the project priority list.

Financial Review of Applicants:

Before approving a project for funding, the Department of Health and Sanitation requires a financial review of the applying water system to determine its ability to repay the loan. The California Department of Water Resources subcontracts an outside financial firm, California Municipal Utilities, to conduct this credit analysis. After a project receives funding, the DHS monitors the loan portfolio semiannually to identify potentially weak loans in order to avoid default. Late payment of loans is automatically flagged, and the DHS then contacts the water system. As of June 30, 2003, all accounts were current.

Other Requirements for Applicants:

Both community water systems and non-profit, non-community water systems may apply for loans, but non-profit, non-community systems are only eligible for Source Water Protection Loans if it is for land or easement acquisition. The loans may not be used for ongoing operation and maintenance, dams or raw water storage facilities, facilities primarily meant to serve future growth, water rights, nor land acquisition, other than what is necessary for construction of facilities. The projects must meet United States Environmental Protection Agency (USEPA) standards and any applicant documents are available for inspection and audit by USEPA.

When applying for a loan, the applicant needs to follow specific directions on what to submit. An application for a construction loan needs to include: financial statements covering balance and income for the past three years, an evaluation of alternative solutions to the problem which compares costs, effectiveness, and environmental impact of each possible solution, a description of the selected or proposed alternative, a proposed design and construction schedule, a cost estimate breakdown, and an analysis of projected growth anticipated in the area in the next ten years, among other requirements.

Application Process:

First, the DHS sends out invitations to the SRFs to pre-apply, and once the pre-applications are submitted in August, the DHS establishes a project priority list, with 95% to 99% of the pre-applicants making it onto the list. By April, a Statement of Interest is sent to the applicants, who return it within thirty days in order to receive an application package. By the end of the year, the application package is submitted, and it undergoes financial, environmental, and technical reviews. The SDWSRF recommends the loan amount, establishes the terms and agreements of the loan, and executes the funding agreement, but the DHS makes the final decision whether or not to provide funding.

If the application is approved, a notice of authorization is sent to the applicant, who has thirty days to sign it and to submit all required documents to the appropriate offices. After the fund is disbursed, the water fund may initiate construction and submit its claim. The DHS and DWSRF have ten days to comment on the claim, after which it is sent to be processed and paid by the State Controller's Office. The DHS monitors construction, and conducts a final inspection upon the project's completion, after which loan payments begin.

Results:

Between the fiscal years 1998/99-2002/03, the SDWSRF contributed a total of \$190,189,227 in project funding among 46 different projects. This served a population of about 8.6 million. In 2001, thirteen projects received grants:

- Colusa CSA #2 in Stonyford received \$875,000 to install treatment and storage facilities to serve a population of 400.
- Contra Costa WD in Bollman received \$6,000,000 for sedimentation basin improvements to serve a population of 400.
- City of Kerman received \$2,250,000 for construction of a storage tank and new production well and for well rehabilitation to serve a population of 8,945.
- City of Loyalton received \$1,263,321 to construct wells, modify storage tanks, and add chlorination filters, to serve a population of 930.
- City of Vallejo received \$400,500 for consolidation of MHP to the City of Vallejo to serve a population of 100.

- North Marin WD received \$12,175,000 for rehabilitation of a SWT plant to serve a population of 53,000.
- San Jose Water Co. received \$2,474,000 to construct an on-site storage and pumping station for filter-to-waste water, to serve a population of 979,000.
- Santa Clara Valley WD in Pentencia received \$2,100,000 to install wash water clarification treatment systems and filter-to-waste capability to serve a population of 1,000,000
- Santa Clara Valley WD in Rinconada received \$4,580,000 to install wash water clarification treatment systems and filter-to-waste capability to serve a population of 1,000,000.
- Solano I.D. in Blue Ridge Oaks received \$856,000 for consolidation to the City of Fairfield to serve a population of 82. Consolidation entails restructuring two or more water systems into a single public water system through physical consolidation of the systems.
- Solano I.D. in Peabody received \$350,000 for consolidation to the City of Fairfield to serve a population of 100.
- Truckee Donner PUD received \$13,209,357 to repair or replace its distribution system to serve a population of 3,000.
- Yuba City received \$653,000 for consolidation of MHP to the City of Vallejo to serve a population of 1,318.

A total of \$47,232,178 in grants was committed in 2001 to serve a population of 1,046,875.

The 2005 PPL has 51 projects on it, including the Squaw Valley Public Service District, which is in need of \$75,000 to identify, locate, and map wells that might allow contaminants to enter the groundwater. This would serve a population of 770. Another system on the list is the San Francisco Regional Water System, which needs \$250,000 to reduce contamination of the Calaveras Reservoir. This would be done by stabilizing the slopes of the Alameda Creek tunnel, which discharges water into the Reservoir. Improving the tunnel would decrease the contamination level of the Creek, and thus the Reservoir, and would serve a population of 600. Additionally, the SDWSRF currently assists over 8,100 small water systems with funding for technical assistance.

Advice To New Development Funds:

According to Stephan Woods, new funds should first establish realistic goals and objectives. Funds should insure that they have a system to manage fiscal, technical, and programmatic needs to prioritize and track funds. A Policy and Procedure manual provides guidance in administration and in "providing uniformity." Also, annual audits are important to identify errors and establish the program's credibility. New funds should use the examples of existing development funds to design a program based on their own country's needs.

SPOTLIGHT:

Infrastructure Finance Corporation Ltd. (INCA)

<http://www.inca.co.za/>

By: Sophie Guiny

Name	Infrastructure Finance Corporation Ltd. (INCA)
Location	Sandton, South Africa

Year founded	1996
Legal status	Private corporation
Main sectors of lending	Statutory sector (municipalities, provincial governments mainly)
Credit rating	AA- (Fitch)
Name of the CEO	Attie van Zyl
Staff	47
Exchange Rate	\$= R6

Background

INCA was established in 1996 in response to the South African government's call for more private involvement in infrastructure funding. It is the only 100% privately owned infrastructure debt fund in South Africa.

INCA provides long-term loans to the statutory sector (mostly municipalities, but also provincial governments, water boards, higher education institutions and other public entities), as well as institutional capacity building and financial engineering advice. Loans to the local government account for 75% of INCA's portfolio, but the company is thinking of diversifying its activities and aims at expanding its business to state-owned enterprises (SOEs).

INCA has three subsidiaries:

- INCA Bond Rehabilitation Company (IBRC), incorporated in 1999, which purchases non-performing municipal debt investments with the objective of rehabilitation.

- INCA Asset Finance (INCAFIN) to finance the purchase of equipment such as motor vehicles, machinery, communication and electrical device. INCAFIN also leases equipment purchased from its customers.

- INCA Capacity Building Fund (INCAP), established in 1998 to develop capacity in the local government sector, mostly through the financial training of municipal officers. INCAP also supports the HIV/AIDS in Local Government Programme.

A 19-member board governs INCA, representing the shareholders, and has full control on all subsidiaries. INCA is further governed by specialized committees: the Audit Committee, the Credit Committee, which must unanimously approve any loan, the Asset Liability Committee, the Internal Audit, the Market Value Verification Committee, and the Human Resources Committee. INCA has a staff of 47 (33 from INCA, 13 from INCAFIN and 1 from INCAP).

Financial structure

INCA is an entirely private corporation. Its shareholders are Kagiso Financial Services Ltd. (43.96%), FutureGrowth Ltd. (26.98%), FirstRand Bank Ltd. (17.68%), INCA Share Incentive Trust (4.95%), Dexia Public Finance Bank (4.42%), Chanson Investment Holdings Ltd. (2.0%) and Proparco (0.01%).

68% of INCA's funding is drawn from the South African capital market through the issue of long-term bonds listed on the Bond Exchange of Johannesburg. Since inception, there have been three bond issues raising a total amount of \$785 million (ZAR 4.689 billion).

INCA receives 25% of its funding in long-term loans from international development finance, namely the European Investment Bank, the Agence Française de Développement, and USAID. INCA has some long-term loans from domestic institutions as well, which makes up the balance of the sources of funding.

INCA is a profitable institution; for 2004 the net profit was \$11 million (ZAR 65.4 million). INCA has a sound financial situation, with low levels of debtor default and few non-performing loans. That is why INCA has been rated AA- by Fitch in 2004. Fitch has

praised the sound management of INCA, but has noted the high levels of concentration risks, due to the fact that INCA only lends to local government.

Since its creation, INCA has given more than \$809 million (ZAR 5.5 billion) in loans. Advances in calendar year 2004 amounted to \$184.9 million (ZAR 1.11 billion).

Terms of lending

INCA's mandate allows it to fund fixed and movable assets of all entities within the statutory sector. INCA, however, focuses mainly on balance sheet funding to the municipal sector, and its appraisal and lending process was tailored to the needs of municipalities, water boards and other utilities. INCA grants loans only to statutory institutions' long-term infrastructure projects while INCAFIN funds statutory institutions' short to medium term leases on moveable assets.

The appraisal process in INCA is underpinned by a credit model, which focuses on all the major components impacting on the ability of the borrower to meet its commitments towards INCA. Assessment is based on financial statements that are less than 18 months old. The credit appraisal criteria are:

- Financial viability
- Management capacity
- Economic sustainability
- Socio-political conditions: INCA is familiar with the conditions of most large South African municipalities; media coverage is also taken into account
- Environmental awareness: the credit valuation model assesses the overall environmental risks of clients and their readiness to deal with environmental disasters.

INCA does balance sheet lending and not project lending. Therefore as long as INCA assesses the borrower as credit worthy, the borrower is eligible. The loan should be utilized only for capital expenditure.

Portfolio teams visit clients annually to assess the client and build a relationship. After specifically assessing the management capacity, economic future, current financial position, and future prospects, with an emphasis on reliable free cash flows generated by the borrower, INCA provides a shadow rating to a borrower. Based on the shadow rating of the borrower and the pure size of the free cash flows generated by the borrower, INCA approves a long-term and short-term credit facility available to borrowers. These facilities are annually reviewed and adjusted if needed.

The INCA Credit Committee meets every second week to consider new applications for credit limits and to review existing limits. This enables INCA to maintain an average turn around time on funding requests of 21 days.

INCA provides fixed and/or floating rate finance for terms from 1 to 20 years. Most loans are a 10 year duration. Others are project - specific e.g office buildings, and are a 15-20 year duration. Assets are financed over 1-5 years. Transactions are concluded by way of standardized loan agreements (now in use for more than 6 years).

Interest rates are based on the prevailing yield curve of the South African bond market. Currently customers would be charged between 9.75% and 10.25%.

INCA's liability structure as of December 31, 2004:

	\$ (million)	ZAR (million)
Subordinated	29.6	177.4
Long term	1,110	6,660
	1,139.6	6,837.4

Concrete example of several projects in which INCA has provided assistance

Johannesburg Metrobus - Municipal Buses
Koekedouw Irrigation Scheme - Dam
South African Airways -Aircraft syndicated loan
Sentech (state owned communications company) -Equipment
Magalies Water - Waterworks
Nkangala District Municipality -Office Building
Valkop -Dam
University of Free State - Student Centre
Tshwane University of Technology -Student Residents
Other - General municipal expenditure programmes

Capacity Building Fund

- Annual Summer School for municipal managers
- Study modules- basic financial skills
- Bursaries - Public Administration and Finance studies
- Three phases: research on HIV/AIDS and policy implementation.
- Ring fencing of Johannesburg Zoo

**International Association of
Development Funds**

Chairman...Lubomir Ficinski
President...Anthony Pellegrini
Executive Director....Kathy Shandling
Manager, DC Office....Kristyn Oldendorf