

# IADF BULLETIN



## *FINANCING LOCAL GOVERNMENT*

Volume 1, Issue 8

October 2004

**Second International Conference on Financing Municipalities**  
**September 30-October 1<sup>st</sup>, 2004**  
**Washington DC**  
by Laura Robinson

The Second International Conference on Financing Municipalities in Washington DC brought together more than 310 participants from 42 different countries to discuss issues related to municipal finance and infrastructure financing. The conference was broken out over two days and featured keynote addresses by speakers including Enrique Iglesias, President, Inter-American Development Bank, Fred Schieck, Deputy Administrator of USAID, Joaquim Levy, Secretary of the Treasury, Brazil and Kathy Sierra, Vice President of Infrastructure, World Bank. Additionally there were panels of speakers addressing specific topics throughout the course of both days as well as breakout sessions to discuss topics affecting particular regions. There was an additional session held on Saturday, October 2<sup>nd</sup> hosted by the New York State Revolving Fund which discussed state revolving fund operations.

On the first day of the conference, the keynote panel discussed the topic of Global Trends in Financing Sub-National Government and Para-Statal Entities. The next panel addressed the topic of Institutional Models in Advanced Economies and their Applicability to Developing Countries. The benefits of state revolving funds (SRF) were part of this discussion. The lunchtime presentation was given by Mary Jane Ortega, Mayor of San Fernando, Philippines. The regional breakout sessions discussed Current Experience, Innovation and Opportunities and were divided by the following regions: Latin American, Middle East and Africa, Asia and Eastern and Central Europe. Key themes discussed were the importance of partnerships in order to further the public interest and foster development, the importance of private sector participation in development efforts, the importance of technical assistance to local self governments, and the promotion of community participation in decision making.

During the morning of the second day of the conference, a panel of speakers addressed the topic of Legal, Regulatory and Institutional

Framework for Sub-national Borrowing, followed by a panel discussing Policies of Bi-laterals and Other Donor Institutions in Financing Local Government Infrastructure. Methods of mobilizing private capital for municipal projects were discussed and emphasis was placed on the point that long-term private sector-led growth depends on mobilization and use of this private capital on a local level. These concepts were built upon during a working lunch session discussing how to make projects bankable.

In the afternoon, a panel organized by the Cities Alliance discussed the topic of Local Governments: Facilitating Framework and Enabling Policies for Accessing Debt Finance..

The last panel of the day discussed Policies of Municipal Development Banks in promoting private finance for Local Government Infrastructure.

The conference proved to be a success both in the significant participant turnout and the wealth of material brought to the conference and shared amongst the participants. IADF is extremely grateful to the conference sponsors for making the conference possible as well as the speakers for their valuable contributions.

**Further information on the conference and papers presented can be obtained from our website:**  
**[www.developmentfunds.org](http://www.developmentfunds.org)**

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## **NEWS DESK**

-Compiled by Laura Robinson and Stephen Medlock

### **Delhi seeks foreign funding for infrastructure**

[www.ft.com](http://www.ft.com)

October 19 2004

Manmohan Singh, India's prime minister, on Tuesday urged foreign investors to contribute to \$150bn worth of planned infrastructure spending, an appeal likely to further strain relations with his government's communist party allies. Mr Singh told a business summit between India and the Association of South East Asian Nations (ASEAN) that the country's economic growth relied on substantial increases in domestic and foreign investment in physical infrastructure.

India's ailing airports and railways need more than \$55bn in capital investments, alongside \$75bn in power, and \$25bn in telecommunications, Mr Singh said. "We will make every effort to promote such investment and to create a climate conducive for investors and entrepreneurs."

Such statements are a further sign of the government's resolve to pursue economic reforms despite opposition from communist parties, which support Mr Singh's multi-party coalition from the outside. Relations between the government and the communist bloc appear increasingly tense. Both sides clashed last week over plans to raise the foreign equity ceiling in the telecom sector from 49 to 74 per cent, part of several industry reforms championed by P. Chidambaram, the finance minister.

Communist parties have opposed raising foreign direct investment levels in telecoms, citing concerns over national security. They have argued for a "Chinese strategy" to mandate foreign telecom carriers to enter into local joint ventures.

### **Singapore admits insider trading by state fund**

[www.ft.com](http://www.ft.com)

October 21, 2004

Singapore on Thursday admitted to a rare case of insider trading by its biggest state-run investment fund after it was discovered by Japanese authorities. Three traders with the Government of Singapore Investment Corp were found to have used non-public price-sensitive information in selling shares in Sumitomo Mitsui Financial Group in February 2003 to avoid a loss of S\$710,000 (US\$424,570), the Monetary Authority of Singapore (MAS) said.

The sale was in response to a planned convertible preferred share offering by SMFG, Japan's second largest banking group, before it was publicly disclosed. The traders had anticipated that the SMFG share offer would cause a subsequent fall in the bank's share price. The disclosure of the insider trading deal came after a recent report by Standard Poor's, the international ratings agency, suggested that GIC, which manages more than US\$100bn in Singapore's reserves, had suffered poor investment returns in the last five years. The three traders were fined S\$715,000, but were not dismissed from their jobs.

MAS, the city-state's financial supervisor, said it had been alerted to the insider trading by Japan's Financial Services Agency and Securities and Exchange Surveillance Commission. It did not say when it had learned of the case and why it took 18 months to be made public. GIC is barred by law from investing in Singapore and its holdings consist of overseas equities, bonds and property.

### **Czech Republic Municipal Finance Company Reports Increased Profits, Returns**

[Czech Republic Municipal Finance Company](http://www.czechrepublic.com)

September 20, 2004

The annual **General Meeting** of the CMZR Bank's shareholders was held on 8 June 2004. According to the meeting agenda, the shareholders discussed the Bank's performance and operation results achieved in 2003 and the strategy for further long-term development.

This regular General Meeting of Shareholder discussed and approved, the Annual Report on the Bank's business activities, the Consolidated Financial Statement as of 31 December 2003, the independent Auditor's Report, distribution of the 2003 profit and minor amendments to the Articles of Association.

Compared to 2002, the Bank's net profit after tax for 2003 increased by 20 % amounting to CZK 644 million. The 2003 annual return on average equity (ROE) and annual return on average assets (ROA) went up to 16.6 % and 0.9 %, respectively. The equity increased by 8.4 % and amounted nearly to CZK 4 billion.

### **KommuneKredit 'AAA/A-1+' Ratings Affirmed, Unaffected by Planned Local Gov Reform**

**KommuneKredit**

September 20 2004

Standard & Poor's Ratings Services said today it affirmed its 'AAA/A-1+' issuer credit ratings on Danish municipal financing vehicle KommuneKredit, as it is not expected to be affected by the planned profound reform of the Danish local and regional government sector. The outlook is stable. The reform plan, as published in June 2004, comprises three main elements: the merger of municipalities to about 100-120, the substitution of the 13 counties by five larger regions primarily responsible for health care, and the transfer of revenue and expenditure responsibilities between the administrative levels. "Although the credit quality of individual borrowers, and the degree of diversification of KommuneKredit's loan portfolio will be affected, the underlying average credit quality of the Danish local government sector as a whole is not expected to weaken," said Standard & Poor's credit analyst Christian Esters. "In addition, KommuneKredit will continue to benefit from the joint and several guarantee of the entire Danish local government sector. KommuneKredit may call on any of its members directly without previous court approval." The ratings on KommuneKredit reflect its important role in the Danish local government sector, having served as the sector's primary funding vehicle for more than 100 years. The institution operates as a financing vehicle, the sole purpose of which is to provide its members with low-cost funding. "Given that the reform is still in the early stages, we will monitor its design and implementation as it evolves over the next two years," said Mr. Esters. KommuneKredit is expected to maintain its strong position in the Danish local government funding market and continue its prudent lending and matching policies.

## **Local government reform in Denmark KommuneKredit**

August 30, 2004

The Danish government and its supporting party Dansk Folkeparti have agreed to carry out a major local government reform in Denmark. To create better conditions for municipalities to carry out their tasks the minimum size of municipality will be raised to 20,000 inhabitants. This means that the number of municipalities will be reduced from the present 271 to around 100-120 municipalities. This also means that further tasks can be decentralized from counties to municipalities.

The 13 counties will be merged into 5 regions whose main tasks will be health and regional development. The reform will become effective as of January 1st, 2007.

## **Lithuanian Hansabankas net profit, 9 months 2004**

### **Stock Exchange Release 15.10.2004 09:15**

The unaudited net profit of Hansabankas, Hansabank's Lithuanian subsidiary, was LTL 81.6 million (EUR 23.6 million) in the first nine months of 2004. The bank earned LTL 57.7 million (EUR 16.7 million) during the same period last year.

Hansabank Group 2004 Q3 financial results will be published on October 29.

## **Growth of Municipality Finance Plc continues – net income from financial operations at the same level as a year ago**

[www.kuntarahoitus.fi](http://www.kuntarahoitus.fi)

August 30, 2004

The second quarter of 2004 at Municipality Finance Plc of Finland has proceeded as expected.

Municipality Finance's long-term loan portfolio increased by 4% from the end of the previous financial year and by 9% on the same time in the previous year, standing at over EUR 3.8 billion (EUR 3.5 billion on June 30, 2003). The balance sheet amounted to EUR 4.9 billion at the end of June, having been EUR 4.6 billion at the end of June in the previous year. Profit before appropriations and taxes for the period January to June was EUR 2.0 million (January 1 - June 30, 2003: EUR 2.3 million).

Despite the tight competition, the net income from financial operations was at the same level as it was for the first half of 2003, being EUR 5,8 million.

Demand for lending increases and competition stiffens  
The demand for loans continued to be livelier than in the previous year, indicating a tightening financial situation for municipalities. Increasing competition has cut the margins of municipal loans. Municipality Finance focuses to safeguard profitability in its business in the long term and has not entered into aggressive price wars. It is expected that long-term lending will total some EUR 650 to 700 million on annual level (2003: EUR 691 million).

EU approves guarantees granted to Municipal Finance by the Municipal Guarantee Board  
The EU Commission has decided not to oppose Finnish legislation enabling the Municipal Guarantee Board to grant guarantees to Municipal Finance's funding. The Commission states in its decision that Municipality Finance shall grant loans to its customers on favourable terms and in accordance with the EU's state aid regulations.

The decision clarifies and strengthens Municipality Finance's position on the domestic financial market even though it will not have any real effect on the operations, because it only reinforces the validity of the company's previous operating model.

Funding program size raised to EUR 3 billion  
Municipality Finance's key funding program, the EMTN program, [WHAT KIND OF PROGRAM IS THIS?] was augmented to EUR 3 billion from the earlier EUR 2.25 billion when the program was updated in June.

In January-June, the company acquired EUR 409.6 million (Jan 1 – June 30, 2003: EUR 850.3 million) in long-term funding. Debt instruments under the Treasury Bill program were issued for a total of EUR 520.3 million during the financial period (Jan 1 – June 30, 2003: EUR 369.7 million). Total funding at the end of June stood at EUR 4,664.5 million (June 30, 2003: EUR 4,362.1 million). The euro was used in 62% of the funding; 38% was denominated in other currencies.

## **Memorandum of Understanding Signed Between Uttaranchal and IDFC**

<http://www.idfc.com>

October 15, 2004

The Government of Uttaranchal and IDFC entered into a Memorandum of Understanding (MOU) to explore enabling initiatives in infrastructure development to harness the potential in hydro-power, tourism and other areas in Uttaranchal. The Government of Uttaranchal and IDFC believe that their complementary strengths could be synthesised through an institutional alternative whereby the Government can access expert advice on policy frameworks and strategies on private finance initiatives to identify, structure and develop viable infrastructure projects with private sector participation. Such an approach would enhance investments, both public and private, to expedite orderly development of power, tourism and other infrastructure sectors in the State. The MOU also identifies immediate opportunities in the power and tourism sectors where the State and IDFC could engage synergistically.

IDFC has now nearly completed a power sector strategy for the State, undertaken and completed an AgroVision Report and is midway through two tourism projects and is now working on the revival of three airstrips and an urban vision for the state.

## **Tamil Nadu Study on Pool financing structure financed by USTDA**

<http://www.tnudf.com/>

October 22, 2004

USTDA is financing a study on Pool finance structure for market access by Urban Local bodies in Tamil Nadu. Centennial Group (A

US based company) has been selected to conduct the study. A seminar was organized by TNUIFSL on 30/01/04 where in the experience of US Bond Bank were shared with the participants. Presentations were made by Mr. William Streeter MD, Fitch Ratings / Global Project Finance, Dr. A. Pellegrini, Director Centennial Group, Mr. James T Gebhardt Chief Finance Officer, New York State Environmental Facilities Corporation and Mr. Seth G Coulter, Assistant Director of Investment and Loan Administration. The participants included investors, Merchant Bankers and Rating agencies.

### **Tamil Nadu bags North Karnataka Project Under Asian Development Bank Program**

<http://www.tnudf.com/>

October 22, 2004

Tamil Nadu Urban Infrastructure Financial Services Ltd in association with WilburSmith Associates Pvt. Ltd. has bagged a North Karnataka project under Asian Development Bank – III, to prepare Urban Sector project for twenty towns in North Karnataka. The scope of the work includes development of a detailed approach and methodology and preparation of feasibility report for urban projects in 20 towns.

### **Nederlandse Waterschapsbank Places 1 Billion Euro Bond Issue**

<http://nwb.nl/>

The Hague, September 14 2004

Nederlandse Waterschapsbank (NWB) has placed an EUR 1 billion issue. The lead managers are ABN AMRO Bank N.V., Citigroup Global Markets Limited and Credit Suisse First Boston (Europe) Limited. NWB is an AAA/Aaa rated public sector bank. The bond, which was issued under the EUR 25 billion EMTN program, will be repaid in full on 16 September 2014. The settlement date is 16 September 2004. The coupon is 4.25% and the re-offer price is 99.872%. The bonds will be listed on Euronext Amsterdam.

### **Bank Nederlandse Gemeenten Places 100 Million Australian Dollar Bond Issue**

<http://www.bng.nl/>

The Hague, October 22 2004

BNG, the Dutch Public Sector Agency, rated AAA/Aaa/AAA, has launched a AUD 100 million issue. Due November 3, 2009, the deal has a coupon of 5.50% and the issue price is 101.03%. The yield is 5.26%. Settlement date is November 3, 2004. The issue will be listed in Amsterdam. Lead manager is TD Securities, a syndicate has been formed.

### **Bank Nederlandse Gemeenten Places 1.5 Billion Euro Bond Issue**

<http://www.bng.nl/>

The Hague, October 21 2004

BNG, the Dutch Public Sector Agency, rated AAA/Aaa/AAA, has launched a EUR 1,5 billion issue. Due 29 October, 2009, the deal has a coupon of 3.250% and the issue and fixed re-offer price of 99.964%. The yield is 3.258%. Settlement date is 29 October, 2004. The issue will be listed in Amsterdam. Lead managers are ABN AMRO, Citigroup and JP Morgan, a syndicate has been formed.

### **Fitch confirms Nova Ljubljanska Banka credit rating**

[Slovenia Nova Ljubljanska Banka](http://www.novabanka.si/)

Ljubljana, October 8 2004

Convinced by quality investment portfolio Fitch, one of the leading global rating agencies confirmed NLB's credit rating recently, as expected.

Long-term credit rating for foreign-currency deposit credit risk is still A-, which is the highest rating among the banks in the Slovene banking sector. Other assessments made by Fitch are the following: Short-term risk was rated F2, performance without external support - Individual C, and external support - Support 1. Outlook remains Stable. The report issued by the Agency Fitch says that such stability of credit rating reflects quality investment portfolio, stable macroeconomic environment and prudent risk management policy. NLB's most significant competitive advantage is its market share, which exceeds 40 percent. Besides that, the key factors which impact the rating are cost management, increased competition together with accelerated reduction of interest margins and quality of managing investments in South-Eastern European countries.

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## **INTERVIEWS**



### **Interview with Solvita Klapare Former Project Manager Latvia Municipal Development Fund**

**By Stephen Medlock**

**IADF:** When was the Latvian Fund founded?

**SK:** It was founded in 1995. The idea of the foundation came from the same set of ideas driving decentralization, which started after Latvia got its independence at the beginning of the 1990's. In 1995 the government made an agreement with the World Bank to make a loan for the financing of a pilot municipal development fund. They called for a pilot MDF that would be funded by \$3.5 M USD, that would go to infrastructure investment costs. The MDF was designed to lend to all municipalities except the biggest ones in Latvia. \$100,000 USD was allocated for the establishment and operation of the Municipal Development Fund. In the beginning we started work with only two people and began to check out the interest of the municipalities. Some of the municipalities were resistant to taking a loan at all because they considered borrowing a bad thing. In some cases it was considered a shame to borrow. So we had to explain to them how businesses worked in market economies – and in the more developed countries the municipalities are borrowing money constantly because you cannot build a school or replace a pipeline with funds coming from the state budget. That's how we started our operation.

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For a while we toyed with the idea of a revolving fund – but a revolving fund from \$3.4M USD is nothing, so we didn't do that. When we started we had two main objectives.. It was stated that the foundation would try to attract financial means and try to make resources available to municipalities to make investments in the energy sector, in the water sector, in building schools and hospitals -- basically in all kinds of infrastructure. The second objective involved capacity building – especially in smaller municipalities to help them learn about project design, project implementation, and project preparation.

The learning curve was really significant early. It was one of the biggest challenges, because at the beginning in 1996 when the loans were made available to municipalities the World Bank loan was still cheap for the municipalities compared to commercial banks. Commercial banks wouldn't issue loans to some of the smaller municipalities, or if it did the municipalities could go bankrupt trying to pay them. But over time the Commercial Banks started to move in and started to issue loans to municipalities. The commercial banks began to consider municipalities quite safe because they had assets and guarantees. When European Union started to come in, the MDF wasn't that competitive anymore. Still municipalities kept coming. They said that they needed our help, because Commercial Banks didn't offer technical assistance. In project appraisal, you can start with one idea about what you want to do, but when you start to work on feasibility studies you find many alternative, cheaper, and correct solutions. So that's why I think that the capacity building part of our mission was so important especially at that point. We were not allowed to give the loans to the seven republican cities – which are like bigger and richer cities – because we did not have the money and for Riga they could have a project the size of \$3 M USD by itself and we could not afford to do it. So we were working towards other smaller municipalities – which are for a country of around 2.3 million people about 600 municipalities. So they were really tiny and really lacking any experience in project design, preparation, or implementation.

**IADF:** Did other international institutions get involved??

**SK:** There was no aid from the EU or the EBRD. We did have a number of conversations with the European Investment Bank and the Nordic Investment Bank. We tried there because the government had already signed agreements with both of those banks for about \$20 M USD to support municipal lending. It was a considerable amount of money and we were ready to use the same processes which our clients really appreciated. But the decision was made in the government to give this money through the State Treasury, and not to disburse the funds through the MDF.

**IADF:** How did the Latvian Fund lend? To whom did it lend?

**SK:** We were lending only to municipalities. Municipal enterprises – such as a municipal water company – needed the support of the municipality. That was why with a few exceptions the loans were never to any other entity other than the municipality. The rate that we were using was the prevailing World Bank rate and we had a margin that covered the consultant fee and the operations of the MDF. We found that this rate was enough to cover the operations of the MDF. Sometimes of course, we were questioned about our margin – you know “what particularly do you do?”. The maximum repayment period was 10 years, with a grace period of 1 year or 1.5 years

**IADF:** Why did the fund cease operations?

**SK:** That is an interesting question because we successfully implemented 34 projects. All of the parties who borrowed from the municipal development fund are paying those loans back

There was demand for further lending,, but there were other mechanisms introduced in Latvia. The State Treasury began issuing loans to municipalities directly. Legislation was introduced that said that the main source of borrowing for municipalities should be the state treasury, unless you can prove to the Ministry of Finance that you had much better terms – and that was a longer procedure – there were more forms. There was an exclusion from this bureaucratic mechanism for the MDF because we had a loan agreement with the World Bank and we had to implement the project. The project naturally ended when the \$3.5M USD was dispersed. We were actively trying to get funding from the European Investment Bank, but it was the government's decisions that the MDF was not such a necessary institution.

Even if the World Bank were to make another loan to Latvia for the MDF it might be the case that those loans would not be competitive because the procurement procedure for the EU is easier. The amount of the funding for the MDF and the inability to find another source of funding in order to set up a revolving fund was the problem. The money we had was enough for one round of disbursements, but the repayments of sub-loans wouldn't accumulate sufficiently fast to operate as a revolving fund. So we were really limited by our initial capital.

**IADF:** What percentage of your applications were accepted?

**SK:** In the pipeline we had about \$34M USD requested and we accepted \$3.4M USD of requests. So that's about ten percent. . And in the application process we usually had good projects by the time these projects had gone through the vetting process. We asked municipalities what was most important and we encouraged them to talk to their people and have public meetings to decide what the real priorities there were. That is how we started.

**IADF:** What advice do you have for new funds?

**SK:** It depends on the situation. The MDF was implemented in Latvia to build municipal capacity. I think that this is a good idea for any country, unless the cities already have specialists and capacity already in place. For example in Riga they didn't need [the MDF's] help. I think it is a great idea to have both financing and a technical assistance agency both in place.

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## Interview with Victor Metreveli

### Executive Director, Georgian Municipal Development Fund

By Olga Zelenova

**IADF:** Could you please tell us your name and title and a little bit more about your organization and its goals?

**VM:** I am Victor Metreveli the executive director of the Municipal Development Fund of Georgia. The Municipal Development fund of Georgia was created in 1997 with the support of the World Bank. The main objective was to create a financial institution for supporting municipalities in finding resources for finding funds for municipal infrastructure. Today Georgia has a sustainable state organization that is an entity of public law. It can give full support to the local governments. About 20 municipalities are working with us and we are providing them with financial investment, training programs, and technical support.

**IADF:** What were your opinions of the conference? What did you like?

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**VM:** The conference was very interesting. It was very interesting to share experience with my colleagues and to see the experiences of other cities and countries. It was a very good idea – I think that it was a great idea and the MDF will be glad to participate in future conferences

**Interview with Volodymyr Kozyr  
Executive Director, Ukrainian Municipal Development Fund**

**By Olga Zelenova**

**IADF:** Could you please tell us your title and role in your organization and a little bit about what your organization does?

**VK:** I am Volodymyr Kozyr the executive director of the Ukrainian Municipal Development fund. The Ukraine is a large Eastern European country. We have a population of about 49 million people. We have a fairly strong banking system. Now we are beginning the mutual project between the World Bank and the Ukrainian Government. The Ukrainian Municipal Development fund (UMDF) was created in 2003 by the Cabinet of Ministers of Ukraine within the framework of the preparation and implementation of the Municipal Development Fund Project, which is carrying out by the World Bank and the Ukrainian Government.

The UMDF takes the lead in project preparation and implementation. The main goal of the project is to develop the commercial municipal credit market in Ukraine. It is a very complicated task, but I am sure that we will be able to do it. As one of the speakers at the IADF Conference mentioned, Mexico was able to accomplish this in four years. In order to implement this objective Ukraine will receive a World Bank loan (\$150 million). One of the important component of the Project is implementation of the investment project financing Program for the Ukrainian cities (towns) and its public utilities aimed to enhance the quality of services to be provided to the population at a local level. Such financing will be fulfilled in the form of commercial loans provided by the Ukrainian commercial banks – Project participants. Since November 2004 the UMDF will start the selection process of the eligible borrowers and their investment projects for crediting within the framework of the Project. It is expected that the funds for crediting of the municipalities and its public utilities will be available at the beginning of the latter half of the year 2005. The loans will be given in national currency of Ukraine only. All cities (towns) and their public utilities that meet the eligible criteria for borrowers and their investment projects are invited to participate in the Project. Based on analysis of submitted proposals the UMDF includes each registered proposal to one of the lists specified below:

“Selected proposals” – the top list of 8-10 proposals that will be given to the UMF’s Supervisory Board (SB) for its approval and recommended to the commercial banks – Project participants for crediting during the first year of Project implementation.

“Eligible proposals” – the list of proposals which can be credited at the next stages of the Project implementation.

“Rejected proposals” - the list of proposals that were submitted to the UMDF at the wrong time, contained incomplete or untrustworthy information, or those which did not meet the eligible criteria of the Project.

**IADF:** Could you please tell me about the situation with municipal governments right now?

**VK:** We have many municipalities and all of them need funds for investment in infrastructure. However, in practice only four major cities have the ability to raise funds. Kyiv was able to issue 250

million in euro bonds this year. However, we have twenty four regions (oblasts), each with a main city, Autonomous Republic of Crimea and many big towns within these regions. All of these cities need funds for the modernization of infrastructure, particularly in the areas of water, heating, transportation, housing, and other needs. I think that we are doing our best to make this jump.

**IADF:** Could you please tell us how you liked the conference and in general what information you will take away from the conference.

**VK:** I am impressed with the high level of the conference and I am very glad that I had the possibility to visit this conference. The level of speakers and information that I obtained at this conference are very relevant for my future work. It is very practical. I think that we need to have these conferences on a more regular basis – no less than one per year.

**SPOTLIGHT:  
Ukrainian Municipal Development Fund**

**By Laura Robinson**

Location	Kyiv, Ukraine
Year founded	2003
Legal Status	Ukrainian legal entity, non-profit public institution
Chief Executive	Volodymyr Kozyr
Main sectors of lending	Public Sector
Staff (approximately)	7

**Staff**  
Executive Director (ED), Administrative Assistant to the ED, Regions Coordinator, Banking Specialist, Financial Management Specialist, Procurement Specialist and Chief Accountant

**Objectives of the Fund**  
Creating a sustainable local borrowing system for the investment requirements of the local self-government bodies (BLSG) financing and the development of a Municipal Credit Market in Ukraine. Specific objectives include:

- Providing access to long-term funds
- Improving the solvency of BLSGs
- Improving municipalities’ use of strategic planning and their budget and project management
- Increasing the commercial banks’ safety and interest in providing long-term loans for BLSGs and enterprises providing municipal services to the population
- Preparing reforms to the regulatory and legal framework that provide for the creation of a more favorable environment for the BLSG financing of priority public projects

- Additional objectives include:
- Improvement of the intergovernmental fiscal policy arrangements
  - Improvement of the regulatory and legal framework for local borrowing
  - Providing technical assistance to the BLSG during the borrowing process
  - Providing technical assistance to the commercial banks - the BLSG lenders

**Eligibility Criteria for Selection of Municipalities**

- The availability of a technical project and feasibility study for the project
- Adherence to the legislative limitation as to loan size and total debt outstanding
- Project conformity with priorities of the municipal strategical development plan
- Budget parameters meet minimum standards for consideration of additional debt
- Eligible projects for financing under the project framework
- Local authorities positively disposed to new approaches to debt finance and project implementation
- Proper practice of the BLGS of qualitative financial management

**Eligible Capital Investment**

- Water and Waste Water Collection
- Treatment and Distribution Systems
- District Heating
- Electricity
- Metering Systems
- Urban Transport
- Rehabilitation of Local Roads
- Recreative objects

**Technical Assistance**

The Ukrainian Municipal Development Fund provides technical assistance in the following areas:

- Training programs for conducting a feasibility study of the investment projects
- Implementation of the full functional system of the fiscal management
- Transition to the strategic budget planning
- Development of the responsible debt policy

**Sources of Capital**

UMDF is financed by funds of the World Bank, Ukrainian State Budget as well as the funds of donors, charitable institutions and other funds that are allowed by the State.

**Supervision**

The Ukrainian Municipal Development Fund is supervised by a Supervisory board. The Executive Director oversees the operations of the fund.

**SPOTLIGHT:**  
**Vermont Municipal Bond Bank (VMBB)**

By **Laura Robinson**

Location	Montpelier, Vermont
Date Founded	1970
Legal Status	Quasi-State Agency
Total Lending Since Founding	\$1.05 billion
Main Sectors of Lending	Public Sector
Executive Director	Malcolm S. Rode
Credit Rating	AA+ (Fitch), Aa3 (Moody's) A+ (S&P)

**Historical Background**

The Bond Bank was established in 1970 with a mandate to provide municipalities with access to municipal bond proceeds at the lowest possible cost. To date the Bond Bank has issued over \$1.05 billion in tax-exempt bonds for over 730 projects and refunding bonds. Eligible borrowers include cities, towns, villages, schools and water, sewer, fire, transportation and solid waste districts.

**Ownership, Structure and Operation**

The VMBB is a quasi-state agency administered by a board of directors that includes four members appointed by the Governor and the State Treasurer.

**VMBB Bonds**

The VMBB normally sells bonds once a year usually in June or July. The bond proceeds are then wire transferred to the participating municipalities approximately one to two weeks after the sale.

*Municipality Participation*

If a municipality wants to participate in a Bond Bank Financing, certain procedures must be followed. After determining the cost of the project and how much the municipality wants to bond for (less available state aid) each must then obtain the following:

- Voter approval; as required by Vermont Statutes;
- Local bond counsel opinion; legal opinion from a Bond Bank approved firm;
- Financial audit; independent CPA audit for the most recently completed year;

When these steps are completed the Bond Bank's application can be completed and submitted for final approval.

*VMBB Bond Sales and Interest Rate Determination*

When the Bond Bank is ready it combines all the approved borrowers in a single pooled bond issue. The financing team determines if bond insurance is needed and cost effective. The necessary documents and copies of the applications are submitted to the rating agencies for a credit rating review and update. After the ratings are obtained a new preliminary official statement is printed and mailed to all investment firms. The bonds are offered first to Vermont individual investors and then to institutional investors. The interest rates are established through negotiation with the selected senior managing underwriter and are based on the order demand from investors, current national interest rates and a review of recent comparable financings. The VMBB has no reserve fund to back its issuances.

*Repayment*

Vermont state statutes limit general municipal and school projects to not more than 20 years. Water and sewer projects can bond for up to 30 years. The municipality determines the length of each loan and it generally can be any number of years from 5 years up to the maximum amount allowed. In addition the principal payments can be delayed for up to five years. Interest will still be due and the number of years delayed does not extend the number of years allowed. For example if a 20-year loan has a five-year delayed start to its repayment of principal the principal payments after the fifth year will be amortized for 15 years.

Debt service payments are due five business days prior to the payment dates of December 1st and June 1st. Principal usually start in the year following the year of the bond issue and is paid annually prior to December 1st. Interest is due prior to June 1st and December 1st of each year and will start in the same year in which the bond is issued.

Principal payments for general municipal projects are limited to level or declining payments and must be in annual increments of

\$5,000. Water and sewer projects can have level debt service or increasing principal payments

*Credit Ratings*

The Bond Bank currently has credit ratings of AA+ (Fitch), Aa3 (Moody's) and A+ (S&P) and has used them to get AAA bond insurance if needed. The Bond Bank bonds also have a moral obligation of the State to pay the bonds if there is a problem. Pooled municipal liabilities are not joint and several; they are the responsibility of each municipality for their share of VMBB issuances, backed by the state in case of default.

**International Association of  
Development Funds**

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