

IADF BULLETIN



FINANCING LOCAL GOVERNMENT

Volume 1, Issue 7

September 2004

The Second International Conference on Financing Municipalities and Sub-National Governments Approaches!

The Conference agenda is almost complete, and as of now it stands to be a very impressive and important gathering of distinguished guests. Confirmed speakers include Enrique Iglesias, President of the Inter-American Development Bank; Joaquim Levy, Secretary of Treasury of Brazil; Juanita Amatong, Secretary of Finance of the Philippines; and many others.

As we prepare for this exciting and important event, I would like to take this opportunity to answer some common questions regarding the Conference.

Commonly asked questions about the upcoming conference:

1. What should I do about the hotel?

The conference hotel is the Doubletree Hotel Crystal City (Phone: 703-416-4100), which is located right across the Potomac River (and 14th Street Bridge) from Downtown Washington, DC, next to the Pentagon. It is generally regarded as one of the best hotels in a prime location, between National Airport and Downtown DC, and is also on the Metrorail Blue and Yellow lines. We have reserved a room block there, which is now full.

For your convenience, we have made arrangements for overflow accommodations at the Sheraton National Hotel, located right near the Pentagon, at 900 South Orme St., Arlington, VA, 22204. One of the nicest hotels in the area. Shuttles services will take you to the Doubletree Hotel for Conference activities. Call 1-800-325-3535 for reservations BEFORE SEPTEMBER 27. (Fax: 703-521-2122)

The opening reception will be held at the Doubletree on Wednesday night. We will also offer a shuttle service from the Doubletree directly to the IADB building in time for the first day's sessions, and back to the hotel after the day's sessions. So, we do recommend that if you are coming in from out-of-town, that you stay at the Doubletree or the Sheraton National.

2. Will there be a shuttle to the conference?

Yes. On September 30th the shuttle will leave the Doubletree Hotel at 7:00AM and 7:30AM to go to the IADB. A shuttle will also depart from the Sheraton National to the IADB on this date. Please enter the IADB building from the 1300 NEW YORK AVENUE entrance. The shuttle will leave the IADB to return attendees to the Doubletree at 6:30PM and 7:00PM. There will be no shuttle service on October 1st as the conference will be at the hotel.

3. How do I register for the hotel?

Download the Registration Form from our website, www.developmentfunds.org, and send it to us by email (stthomas@developmentfunds.org) or by fax (202-362-7692).

The Registration fee is payable by wire transfer or by check. Instructions for each are included on the second page of the Registration form. Credit Cards cannot be accepted.

We require a registration form from all attendees (speakers and attendees alike) for security purposes.

Once attendees arrive in Washington, we will have Registration Tables on-site where participants will receive name badges and Welcome Packets, located before the Security Checks to enter the Conference Rooms. All participants MUST have a badge to enter any conference activity, including meals.

4. Is there anything going on the Saturday following the Conference?

The New York State Environmental Facilities Commission has generously agreed to co-host a special additional training session on Saturday morning, October 2, at the Conference hotel from 9:30-12:30 PM. A description of the event can be found at the end of the Conference Agenda. This special session is a free bonus for Conference attendees willing to stay until Saturday.

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5. *Have there been any additional confirmed speakers at the conference?*

Yes, Kathy Sierra, Vice President, World Bank has been confirmed to speak as the October 1st keynote speaker. She is one of several recent speaker confirmations; please see the attached agenda for others.

6. *Who can I contact with questions, problems or suggestions?*

Feel free to contact me at stthomas@developmentfunds.org or by phone at 202-966-0587.

We look forward to convening the global municipal infrastructure development community in Washington DC for this year's conference event!

Steven G. Thomas, Executive Director, IADF

Sign up now for the Fall Conference!

Sign up now for the **SECOND INTERNATIONAL CONFERENCE ON FINANCING MUNICIPALITIES & SUB-NATIONAL GOVERNMENTS**, held in Washington, DC this September 30 and October 1, 2004!

The conference is co-sponsored by IADF, USAID, World Bank, IADB, IPWA, and PPIAF.

Corporate Sponsors include Citigroup, Standard & Poors, Dexia, MWH and Orrick.

www.developmentfunds.org/programs.htm

NEWS DESK

-Compiled by Laura Robinson

Moody's Updates Brazil's Credit Rating

www.ft.com

9/10/04

Moody's Investors Service upgraded Brazil's credit rating on Thursday, a day after the country increased the size of its euro-denominated bond issue on strong demand.

The size of Brazil's first euro-denominated bond issue in more than two years was increased to €750m from €500m, after more than 250 investors showed confidence in the economic recovery by placing orders in excess of €2bn in less than four hours.

The demand pushed the yield on the bond down to 8.7 per cent from the 8.75 per cent price guidance. The bond would pay a coupon of 8.5 per cent, compared with 11.5 per cent on Brazil's previous euro-denominated bond, issued in March 2002. The lower interest reflected President Luiz Ignacio Lula da Silva's successful efforts to steer the economic recovery following the 2002 collapse.

Indonesia Shares Slip after Blast

www.BBCNews.com

9/9/04

Indonesia's financial markets have reacted with shock to an explosion at the Australian embassy, with both shares and the currency sliding. Shortly after the blast, Jakarta's main stock index had fallen 4%, before recovery to close down 1%. Shares worth more than 1.5 trillion rupiah (\$160m; £90m) changed hands in Thursday's morning session, double the amount traded in the whole of Wednesday. The slide follows four months in which shares have risen amid hopes for a peaceful presidential poll.

In the blast, at least eight people are feared killed by what police say was a car bomb, with more than 130 injured. Suspicion is likely to fall on the militant Islamic group Jemaah Islamiyah (JI), which has been blamed for multiple previous attacks, including the 2002 Bali bombing.

U.S. and Indonesian Governments Sign \$486 Million Pact to Improve Water, Schools, Health, Nutrition and Environment

www.USAIID.gov

9/2/04

The governments of the United States of America and the Republic of Indonesia signed two historic agreements that will provide a total of US\$468 million in development assistance over the next five years. This is the largest development assistance package that has ever been signed by the two countries. These agreements provide a basis for a multi-year bilateral development program and will increase the quality of basic human services in Indonesia. Administered primarily through the United States Agency for International Development (USAID), the programs will support local community in the areas of education, health, water, nutrition, and the environment.

The first of the agreements was the "Education Initiative" announced by President George W. Bush when he met with Indonesian President Megawati Sukarnoputri in Bali in October 2003. Under the terms of this agreement, the U.S. will provide \$157 million over a five-year period to improve the quality of basic education in both public and private schools. Under the terms of the second agreement, the U.S. will provide \$236 million, along with \$75 million in food assistance, over a five year period to improve the quality of basic human services delivered to Indonesians most in need. The program will target essential services related to health, water and nutrition.

FISE to Begin Testing Decentralized Intervention Model for Water and Sanitation Service Provision

Azucena Castillo, Executive Director of the Social Investment Fund, Nicaragua

ACCESS: WSP Newsletter

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9/16/04

With the support of WSP-LAC, the Social Investment Fund in Nicaragua (FISE) will test a decentralized intervention model for water and sanitation service provision in rural areas and small towns. This is the result of efforts designed to encourage knowledge sharing and extract best practices from other experiences, such as the PROPILAS pilot project implemented in the Northern Andes of Peru.

Based on the commitment of the government to pursue the MDGs, FISE has modified its structure to incorporate the Program for Rural Water and Sanitation. FISE's action plan for 2005-2007 aims at benefiting 70,000 people, investing \$13 to 15 million per year, as well as transferring capacities and technical assistance to the municipalities and communities.

Technical Assistance to Enhance Local Capacities for the Small Town Pilot Project

Source: Rafael Vera
ACCESS: WSP Newsletter
9/16/04

The Small Town Pilot Project in Peru (STPP) has selected a consultant firm to provide technical assistance to participating municipalities for the next 21 months. The technical assistance will include an assessment of the water and sanitation services, the design of a development plan to improve the services and new management models, implementation assistance, training of the local stakeholders in their new roles, and periodic evaluations and training reinforcement. The STPP is a joint initiative of the Vice-Ministry of Construction and Sanitation, the Canadian International Development Agency (CIDA), and WSP-LAC. The objective of STPP is to improve water and sanitation services for more than 160,000 people in 11 towns with populations between 2,000-30,000.

Yemen Tackles Decentralization of Rural Water Supply and Sanitation

Source: Tim Kennedy
ACCESS: WSP Newsletter
9/16/04

WSP-Africa, as part of its support to the Rural Water Supply and Sanitation (RWSS) Technical Assistance Project in Yemen, recently completed a draft sub-sector 'roadmap' that merges policy and an overarching implementation strategy. Prepared through a participatory process with leading sub-sector national professionals and experts, the 'roadmap' addresses the Government of Yemen's pursuit of decentralized RWSS development, community-based systems ownership, and its commitment to meeting the Millennium Development Goals. The RWSS Policy-Strategy is expected to be finalized and endorsed by a ministerial process by the end of this year.

Post-project Sustainability Study in Ecuador

Source: Oscar Castillo
ACCESS: WSP Newsletter
9/16/04

In the last few years, significant investments have been made in Ecuador for water and sanitation services in rural communities. A study is being carried out in Ecuador at the request of the water and sanitation sector authority as a follow-up measure. The objectives of the study are to measure the prevalence of sustainable water and sanitation systems built in rural areas of Ecuador five or more years ago, identify the most important issues concerning the sustainability of those services, and document case studies that are

representative of the processes and results related to the sustainability of the services.

Major Entities Sponsor the 2nd International Conference on Financing Municipal and Sub-National Governments

By Stephen Medlock

As the 2nd Annual Conference on Financing Municipalities and Sub-national governments approaches, the IADF staff would like to acknowledge the extensive support and assistance of our very generous sponsors, who make up some of the biggest names in municipal finance. Without these sponsors, the conference would not be as successful as we anticipate it would be. Each of these sponsors provides important services in the field of municipal and sub-national finance and have seized on the importance of this emerging economic field. While it is impossible to summarize all of the services offered by these sponsors, we would like to offer a brief description of each of our sponsors – more extensive information on each group can be found on their respective websites.

Citigroup

Citigroup, Inc. is one of the world's pre-eminent financial services company, with over 200 million customer accounts in more than 100 countries. The company dates back to the founding of Travelers Life & Annuity in 1864. Citigroup and its Citibank subsidiary have a long history as a provider of global financial services with a footprint in six continents. Citigroup's Investment Banking unit provides comprehensive financial advisory and capital raising services to top corporations, financial institutions and governments worldwide. Citigroup provides tailored solutions for its clients, offering strategic and financial advisory services on a wide range of M&A transactions and capital-raising activities, including acquisitions, mergers, divestitures, financial restructurings, underwriting and distributing equity, debt and derivative securities. More information on Citigroup can be found at <http://www.citigroup.com>

Dexia

Dexia Group offers retail banking with some 1,000 branches in Belgium and Luxembourg. Dexia also provides asset management, private banking services, and financial insurance. Its subsidiary Dexia Crediop is a leading local government finance company in Italy. Dexia has offices throughout Europe and in the Americas, Asia, and Australia. Other units are Dexia Finance, which provides municipal financing elsewhere, and Banque Internationale a Luxembourg bank, which provides private banking and asset management services from about 50 offices in the Benelux region. More information on Dexia can be found at <http://www.dexia.com>.

Standard & Poor's

Founded in 1860 on an investor's right to know, Standard & Poor's is a provider of independent credit ratings, indices, risk evaluation, investment research, data, and valuations. Standard & Poor's provides investors with the independent benchmarks they need to feel more confident about their investment and financial decisions. Today over \$1 trillion in investor assets are tied to S&P Indexes including Standard & Poor's premier portfolio index – the S&P 500. S&P also has the world's largest network of credit ratings analysts with more than 1,250 scattered across the globe. More

information on Standard & Poor's can be found at <http://www.standardandpoors.com>

Orrick

With over 250 lawyers and partners Orrick in 12 major world cities, Orrick has become and industry leader in finance and litigation. The firm specializes in employment, intellectual property, and complex commercial law. The firm has also become known for its expertise in corporate law including technology transactions, corporate governance, mergers and acquisitions, real estate, compensation and benefits, and tax. Orrick is the largest counsel for public finance in the United States and the largest counsel for underwriters in the United States. More information on Orrick can be found at <http://www.orrick.com>.

MWH

MWH is a global leader in providing knowledge-driven services. MWH has over \$1 billion in revenue and 6,100 specialists in more than 36 countries that provide premiere solutions to municipalities, government agencies, multinational corporations, industrial concerns, and military organizations worldwide. MWH has proven its expertise in a wide array of integrated solutions including environmental engineering, power generations, facilities development, laboratory services, construction, multi-sector program management, asset management, financial services, IT consulting, government relations, and applied science. Additionally, MWH is considered one of the world's top three experts on power, water, and wastewater issues. More information on MWH can be found at <http://www.mwhglobal.com>.

PPIAF

The Public-Private Infrastructure Advisory Facility (PPIAF) is a multi-donor technical assistance group that aims at helping developing countries improve their infrastructure through private sector involvement. Launched in July 1999, PPIAF was developed at the joint initiative of the governments of Japan and the United Kingdom, working closely with the World Bank. PPIAF pursues its mission through channeling technical assistance to governments in developing countries on strategies and measures to tap the full potential of private involvement in infrastructure and identifying, disseminating, and promoting best practices on matters related to private involvement in infrastructure in developing countries. More information on PPIAF can be found at <http://www.ppiaf.org>.

USAID

Founded in 1961 by the Foreign Assistance Act, USAID is an independent federal government agency that receives guidance from the United States Department of State. The goal of USAID is to bolster US foreign policy via its work in the fields of economic growth, agriculture, trade, global health, democratic governance, conflict prevention, and humanitarian assistance. USAID has field offices located around the world and has developed partnerships with over 3,500 American companies and over 300 U.S.-based NGOs. The primary regions of interest for USAID are Sub-Saharan Africa, Asia and the Near East, Latin America and the Caribbean, and Europe and Eurasia.

The World Bank

The World Bank Group is committed to fighting poverty and improving the living standards of people in the developing world. The World Bank provides loans, technical advice, policy advice, and knowledge services to low and middle income countries to achieve these goals. The World Bank is comprised of the International Development Agency (IDA) and the International Bank of Reconstruction and Development (IBRD). The IDA

offers the largest source of concessional assistance in the world through IDA grants and credits. The IBRD offers governments loans at lower interest rates and at more generous repayment terms than would be available to middle income states from commercial banks. In addition to these two primary branches the World Bank also has the International Finance Corporation (IFC), which promotes private sector investment in countries by supporting high-risk countries and sectors.

The Inter-American Development Bank

Established in 1959, the Inter-American Development Bank (IADB) provides loans, grants, guarantees, policy advice, and technical assistance to the public and private sectors of Central America, South America, and the Caribbean. The IADB is comprised of 46 member countries including the United States, Canada, 29 Latin American nations, Japan, Israel, and 16 European nations. The bank includes 540 staff members who are assigned to country offices in the borrowing nations as well as offices in Europe and Asia that help the bank liaise with the international community. The IADB provides complete oversight of projects.

The International Private Water Association

The International Private Water Association (IPWA) was formed in 1999 to address the changing dynamics that are taking place in individual countries around the world within the context of the evolving water/wastewater infrastructure project and service arena. The Association serves as a conduit between the public and private sector players – facilitating effective timely dialogues that highlight the critical need for speed, transparency and cost-effectiveness in the development/operations of global water and wastewater projects, and the practical means for achieving those elements in projects. More importantly, IPWA is uniquely recognized as one of the few independent organizations that address, as a central part of its mission, the potential expanding role of the private sector as a viable partner to governments and “parastatals” within the global water/wastewater project and service arena.

The International Association of Development Funds would like to thank all of our sponsors and partners for their commitment to making this conference a reality.

INTERVIEWS

Interview with Diane Tate

**Office of Policy Coordination and Initiatives-
Bureau of Oceans and International Environmental and
Scientific Affairs (OES)
U.S. Department of State**

By Steven Medlock

IADF: *Can you tell us what your exact title is and a little about the work of the Office of Policy Coordination and Initiatives (OPCI)?*

DT: My exact title is Water Advisor, and the Office of Policy Coordination and Initiatives in the OES Bureau does pretty much what it says. On the policy coordination angle we work with all of the other OES offices, which handle everything from the oceans to the tree tops. We coordinate issues that cut across those various responsibilities and also coordinate from a regional perspective. So we have both functional and regional portfolio officers. From the perspective of new initiatives, we have a fund called the OESI fund, which is OES-initiatives, and we use these resources to kick off things that might not otherwise happen. For example, we've

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used it to do study tours for the basin officials from the Nile Basin and from the Okovango Basin, we've also used it to support water in Central Asia. Right now we're using this fund to work with the Global Water Partnership, which does water resource management around the world. We will be working with their country level partnerships in three countries: Indonesia, El Salvador, and Ethiopia. We will be supporting national efforts to develop integrated water resource management plans and to improve water governance in all three of these states.

IADF: *Which countries and regions does the OPCI work with on water issues?*

DT: We work in every region on water issues. Africa, the Middle East – there are several people in the office who specialize in these regions. We are also engaged in Asia and Latin America, as well as Central America. The beneficiaries of this work largely depend on the initiative that we are working on. We handle the sustainable development issue within the State Department. We handle interaction with the Commission on Sustainable Development, which was created as a follow up mechanism to the Rio Earth Summit of 1992 and the World Summit on Sustainable Development was part of that series of annual commission meetings. In 2002, the Commission on Sustainable Development took the place of that body and it has been tasked by the UN to handle sustainable development writ large. So we spend a lot of time and energy providing our ideas as to what the next direction should be and supporting US engagement in that group. The water issue cuts across all of the work that OES does, as does energy. Andrew Margolis, who heads this office, was the chief negotiator at the World Summit on Sustainable Development and is the Special Ambassador for Sustainable Development – these are really the ways in which OPCI interfaces with all of these regions on water issues.

IADF: *What role has OES taken in international water and infrastructure financing projects?*

DT: Following the World Summit on Sustainable Development we were preparing for the Third World Water Forum, and when our office gets ready for meetings like that we go through a process of deciding what do we think are implementation mechanisms that we want to highlight and how are we really going to get more water to people around the world. In working with USAID, part of the Water for the Poor Initiative that was announced at the World Summit on Sustainable Development involved mobilizing resources through the Development Credit Authority for Water. We thought that we should really highlight for the World Water Forum, the role that credit guarantees could play and the importance of mobilizing local resources via innovative financing. It was an issue that many people were taking up; that's where we started to focus as an OES area and helping USAID bring that message forward.

IADF: *What are some of the recent initiatives that OPCI has been working on?*

DT: We have worked with EPA on a water-for-Africa project; we've done two processes of that in the past. We haven't done any OES-I projects on financing per se. However, we have done the study tours that I already mentioned and worked with UNDP to establish the Trans-boundary Water Initiative, which is a trust fund that UNDP uses to catalyze processes in key trans-boundary water basins.

IADF: *What are OES' major allies it coordinates with, both within and outside of the US Government?*

DT: We work hand in hand with USAID on these issues. Outside of USAID we work very closely with the EPA, they have had tremendous success with the Revolving Fund Model and our efforts to promote that internationally. We coordinate with every other US government authority on sustainable development in general. Outside the US government we work with private

companies, non-profit organizations, and other governments. We have had a lot of conversations with the Dutch about the importance of financing – just on a working level. As an example of how our alliances work, we have been talking about the EPA revolving fund model whenever possible. It goes into all of the speeches that our principles give. The USAID has been doing a considerable amount - John Wasielewski and his team have been going to a lot of different meetings and talking about the potential for that type of model. We've also been working with IPA.

IADF: *Do you see international municipal development funds as being similar or dissimilar to SRFs here in the US?*

DT: I think that's one permutation that they could take, obviously financing depends so heavily on the laws and regulations that a state has decided that it will operate under that an institution that will work in one place may not work in another location. So it is incredibly important to create institutions that adapt to that local situation.

IADF: *How will these municipal financing institutions in emerging countries eventually fit into a market structure?*

DT: Let me give you an anecdotal example, I worked for two months with Indonesia in our mission there to help them think through their approach to water and financing. In doing that I got the opportunity to talk with a lot of people about the needs for financing in Indonesia. Overwhelmingly, people cited the local government's responsibility for infrastructure, but their inability to secure the resources. I think that one of the things that USAID does whenever it creates and finances a project in one of these countries is it uses the transformative power of good examples. In Indonesia there is one municipality that has outshone all of the others in its ability to operate a profitable water enterprise. This is Medan. If you find opportunities to demonstrate how developing mechanisms can support local financing, it will kick off a necessary change in policy in a nation or even people's willingness to support a new idea. The best way to convince someone of something is to show them that it works. We have seen examples of successful transitions with DCA and Tamil Nadu and the success of SMEs in Africa.

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

DT: We are strategizing with USAID on how to move local development financing forward. I can't really speak on particular projects at the moment, although I can say that we are working with the Global Water Partnership. A key component of integrated water resource management is how a country intends to finance its infrastructure needs. In many cases I don't think many of these countries have completely thought through how this financing will take place.

Interview with Oscar Benavides Majino Mayor of Ate; President of the National Committee of Mayors from Peru; Representative of the Local Governments from Peru of The National Committee for Decentralization

By Steven Medlock

IADF: *What is your title? What other functions do you serve in outside of being the Mayor of Ate?*

OBM: I am the Mayor of Ate, re-elected twice, and I am the President of The National Committee of Mayors from Peru (ANADIS), which represents 1,829 mayors from all over Peru, and the Representative of the Local Governments from Peru of The National Committee for Decentralization.

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IADF: *What challenges in financing do Ate and other Peruvian municipalities face?*

OBM:

- The lack of financial resources to cover their basic necessities in order to a suitable service to the community. The local governments receive only the 3.5% of the budget of the Republic of Peru.
- The recession of the national market causes the lack of liquidity in the contributors, which causes the increase of the arrears and the need for more aggressive collection.
- The current Tributary Municipal Legislation that cut competitions and rents to the local governments, which was a dictate of the Alberto Fujimori Government. For example, the cancellation of the operation licenses tax, announcements, advertising and lands without construction.
- The high interest rates in the Peruvian financial market. The average interest rate for overdrafts in national currency is 50.67% per year, and in foreign currency, 18.15% per year. The active rate (national currency average) is 25.13%, and in foreign currency it is 8.59%.

IADF: *How do Ate and other Peruvian municipalities guarantee their creditworthiness to lenders?*

OBM:

- With the collection product of its tributary income (property tax, Municipal wills);
- With the resources from the public treasury such as the Municipal Compensation Fund (FONCOMUN);
- With the recovery of the investment in concessions like highways and other tolls.

IADF: *What programs is the municipality of Ate undertaking?*

OBM: The Municipality of Ate has at this moment the following financial programs:

- Integral Project of Property Register. – Enables database determination of property values for estate owners;
- Improvements in the collections of arrears by placing greater tributary pressure on the contributors;
- Searching for new sources of financing through international technical cooperation;
- Augmenting the tax base to benefit programs of tributary control designed to detect the tax evasion;
- Elaborating a package of Legal Norms to recover the rents of the Local Governments;

IADF: *Describe the steps that go into planning these programs.*

OBM:

Property Register

- Aerial Maps are obtained through agreement with the Air Force of Peru;
- Architecture students are hired to fill the property values cards by going house to house;
- Notifications are sent to the estates that present deficiencies;
- Omitted taxes are liquidated;
- Machinery and equipment for Local Public Services are acquired.

Improvement of the Arrears Collection

- The work of the Bureau of Active Execution is fortified and modernized.

New Sources of Financing

- Trips outside of Peru are coordinated with the Technical Cooperation Secretary for the search of multinational organizations, foundations and other organizations to obtain new resources.

To extend the Tax Base

- Equipment of tributary control directed to registers (provided by SUNAT) is acquired;
- Agreements are made with the IRS.

IADF: *What international institutions are Ate and the National Association of Mayors (ANADIS) working with to promote municipal development?*

OBM: We have had events financed in the City of Ilo and Lima by the German Foundation, Federich Nauman. Nevertheless, it is necessary to have more international support. Also the Italian-Peruvian Exchange Poverty Compensation Development Fund created between the Government of Peru and Italy, has financed Ate through works of water and drainage in the Association of House Children of Apurimac.

IADF: *What cooperation have you received from mayors and cities in the US? The developed world? Latin America?*

OBM: We have received donations from the Justice Ville Homeless from Los Angeles California consisting of one Dodge Ram Van, 27 computer monitors, 27 CPUs, 20 keyboards and 05 Printers.

We have also received from the Camera Municipal de Serpa, Portugal the sum of 9.885,78 Euros to spread Peruvian folklore in the Cultural Fair of Serpa.

Also we have donations from Spain, Valley of the Trápaga valued at 12,000 Euros consisting of 12 computers Pentium IV, 2 projectors, 1 Ecrum, 1 Laser printer, the sponsorship of 9 folklorists that will represent our Municipality in the Supervisory Celebration of the Valley of Trápaga in Spain, and the reconstruction of the Municipal Educative School 1287 Victor Andres Belaunde.

From Social Samu International of Girona, Spain, a donation of 10,000 dollars for the construction of the second floor of the House of the Culture.

From Fons Valencia Per the Solidaritat - INAUICO, a donation of 24,707 Euros for the roof and coating of the Communal Medicine Kit Tupac Amaru and walls of the second floor.

And finally we have a donation from the City Council of House of the Forest, Girona of 14,000 Euros for the execution of the project Growing Between Children.

IADF: *Has Ate tapped the capital markets? How does the municipality finance itself?*

OBM: The Municipality of Ate is basically taking part in the capital markets through two mechanisms of financing:

- Loans for medium and long term financing of projects and works of public service and urban infrastructure
- The modality of the trust with financial organizations for the acquisition and equipment of public services with the loan of S/. 8 MM (Eight Million of Nuevos Soles) payable in five years, includes a period of 6 (Six) months of grace.

IADF: *What is the relationship between Ate and Peru's federal government?*

OBM: It is a relationship of mutual respect and mutual support. I have participated as Mayor of Ate in the National Council of Decentralization, and acted as a representative of the Distritales Municipalities of Peru. I also have participated in the Consensus Table of the Forum in the National Agreement on the subject of the Decentralization and Transference of the Social Programs to the Local Governments.

SPOTLIGHT:
Arkansas Development Finance Authority

-Laura Robinson

Location	Arkansas
Date Founded	1985
Legal Status	Government Entity
Total Funds Statewide 2003	\$238,395,950.93
Main Sectors of Lending	Economic Development, Homeownership, and Affordable Rental Housing
President	Mac Dodson
Staff	50

Historical Background

The Arkansas Development Finance Authority (ADFA) was created to respond to the changing needs of Arkansas' growing, increasingly diverse population and business community. Since its creation in 1985, the Arkansas Development Finance Authority has become the state's largest source of low-cost financing for low-to-moderate income housing development, small industries, government, education, agricultural business enterprises and health care. It is through the issuance of taxable and tax-exempt bonds and notes, the administration of private and public grants and partnering with other state and federal agencies that ADFA gives Arkansans the most cost-effective financing choices possible.

Objective

ADFA administers funding in the form of tax exempt bonds and other debt instruments through its series of program activities. These activities are divided into three main categories: Economic Development, Homeownership, and Affordable Rental Housing. Each of these three categories resides over several specialized programs for funding disbursement

Ownership, Structure and Operation

A board of directors governs the affairs of the ADFA. It is composed of the State Treasurer, Director of the Department of Finance and Administration, and eleven public members appointed by the Governor. The President of the ADFA is an ex-officio, non-voting member of the board. The public members represent a broad cross section of interests from all geographic regions of the state.

Distribution of Lending FY2003

Total Funds: \$238,395,950.93

Distribution of these total funds:

- 40.0% Homeownership
- 5.1% Housing Production
- 54.9% Development Finance

Loan Repayment

Terms of loan repayment vary depending on the loan program.

Programs

The ADFA has various lending programs in the areas of Housing, Development Finance, and Agri/Aquaculture. The following are examples of ADFA loan programs:

Wastewater Revolving Loan Fund Program

The Federal grants program for wastewater treatment projects was established by the Federal Water Quality Act of 1987. The Act

requires that a revolving loan fund be created to accept Federal Capitalization Grants and require state matching funds equal to at least twenty percent of the Capitalization Grants. In response, Arkansas established the Construction Assistance Revolving Loan Fund, a revolving loan fund used to provide financial assistance to local municipal entities in connection with the construction, rehabilitation, expansion or improvement of publicly owned systems for the storage, treatment, recycling and reclamation of municipal wastewater.

The Arkansas Development Finance Authority and the Arkansas Department of Pollution Control and Ecology completed a leveraging program to double the amount of funds available in Arkansas. Arkansas was the second state to complete such a leveraging program. The loans are at an interest rate of 4% or less with terms of up to 23 years. This program has been very effective and is expected to be expanded to include a revolving loan program for drinking water facilities.

Revolving Loan Fund for Agricultural Producer/Marketing Cooperatives

This program was developed to stimulate crop diversification and to help limited resource farmers make a living on small acreage by growing high value crops. The Arkansas Development Finance Authority has committed \$1 million for a revolving loan fund for agricultural producer/marketing cooperatives, non-profit associations and non-profit corporations in Arkansas who are producing and/or marketing fruit and vegetable products for their members.

The maximum loan to any one group is \$100,000.00. The interest rate on the loan will not exceed eight percent, and in no case will exceed the Arkansas usury rate. ADFA will try to match the length of the loan with the life expectancy of the item financed.

After review of the application package, ADFA staff determines the creditworthiness of the loan. If the loan is approved by the ADFA Board, the borrower will be required to provide at least 10% of the loan amount. This equity contribution can be cash, the value of land, buildings or equipment. A 20 percent equity contribution is required in the following situations: start ups, expansion to increase volume by 50 percent or more and/or unwillingness to give cooperative guarantee beyond financial collateral.

Examples of eligible capital items include hydro-coolers, ice machines, refrigerated trucks, pea shellers, grading lines, etc. Examples of eligible operating expenses include personnel, travel, utilities and supplies.

Aquaculture Program

Loan program which helps coordinate the aquaculture industry in Arkansas.

Philippines: Municipal Development Fund (MDF)

The MDF is in the process of being incorporated into the Municipal Finance Corporation (MFC), an affiliate organized by the Land Bank of the Philippines (LBP).

Location	Manila, Philippines
Year founded	March 29, 1984
Legal Status	Government Revolving Fund
Chief Executive	Helen B. Habulan
Main sectors of lending	Local government social and public works projects

Historical Background

The establishment of the MDF coincides with the National Government's strategic vision of local government autonomy and self reliance. It is a Special Revolving Fund that aims to establish an effective mechanism that would enable local government units (LGUs) to access funds from local and international assistance for the implementation of various social and economic projects. The establishment of the MDF coincides with the National Government's strategic vision of local government autonomy and self reliance.

Objectives

- To provide LGUs with direct access to long-term financing;
- To create an institutional capacity to assist local governments in project preparation and implementation;
- To strengthen local technical and financial capacity for project implementation and service management by creating a Municipal Training Program (MTP);
- To improve local government fiscal performance by enhancing the Real Property Tax Administration (RPTA) system.

Transition to Municipal Finance Corporation (MFC), Land Bank of the Philippines

Under Executive Order 252, the assets, functions, funds and personnel of the Municipal Development Fund will be transferred to the MFC, an affiliate corporation of the Land Bank of the Philippines.

The transition is occurring in order to meet the increasing need for local government financing and a more effective management and implementation of the Municipal Development Fund. This need can be met more effectively by a corporate entity serving as one of the principal sources of financing local government projects and programs. This new corporate entity can be efficiently affiliated to a government financial institution and in the process relieve the National Government from the burden of providing budgetary support and other financial commitments.

The Municipal Finance Corporation is envisioned to exercise the following basic functions:

- Participate in special loan or credit programs for LGUs sponsored by or made available thru the government, GFIs (government financing institutions) or foreign multilateral and bilateral donors;
- Borrow from foreign multilateral and bilateral donors and utilize ODA funds for LGU and through GFIs and/or PFIs (wholesale lending);

- Provide loans for investment projects directly to LGUs (retail lending) or indirectly through GFIs and/or PFIs;
- Provide policy based loans to LGUs;
- Undertake related financial actions such as pooling of LGU bonds, securitization to raise funds for on-lending to LGUs;
- Act as channel of National Government grant financing to LGUs.

The Municipal Finance Corporation has already been incorporated and registered with the Securities and Exchange Commission as an affiliate of the Land Bank of the Philippines with Chairmanship and Vice Chairmanship assigned to the Department of Finance and the Department of Interior and Local Government, respectively. Presently, preparatory activities are being undertaken to facilitate the formation of the appropriate organizational structure for the corporation.

Supervision

The MDF was administered by the Department of Finance through the Bureau of Local Government Finance (BLGF). With the issuance of Executive Order No. 41 in November of 1998, the administration and supervision of the MDF was spun off from the BLGF, thus creating the Municipal Development Fund Office (MDFO). The MDF-Policy Governing Board (PGB) formulates its policies and guides its direction. It is composed of representatives from the Department of Public Works and Highways (DPWH), the Department of Budget and Management (DBM), the National Economic and Development Authority (NEDA), and the Department of Interior and Local Government (DILG). The representative from the Department of Finance chairs the PGB.

Upon Completion of Transition to MFC

The Board of Directors will supervise the MFC and will consist of the following members: the Secretary of Finance is the Chairman, the Secretary of the Department of the Interior and Local Government as Vice-Chairman, the Director-General of the National Economic and Development Authority, the Secretary of the Department of Budget and Management, and the President of the Land Bank of the Philippines and the President of MFC, or their respective duly designated representatives as ex-officio members; and a representative from a local government unit to be appointed by the President of the Philippines.

Projects

While the MDFO has retained its original function as the fund conduit for releases of various financing projects for LGUs implemented by different national agencies, a major enhancement in the functions of the Municipal Development Fund Office is its role as the administrator of the second generation funds and the implementing agency of two World Bank financed projects designed to extend financing, in a combination of loan-grant and equity, and technical assistance to local government units: the Community Based Resource Management Project (CBRMP) and the Local Government Finance and Development Project (LOGOFIND).

Program Lending (PROLEND)

As the administrator of the second-generation funds, the Municipal Development Fund Office offers policy-based loans under Program Lending (PRO-LEND) to provinces for the pursuit of policy objectives and reforms in the areas of fiscal administration, revenue collection and resource generation, budgetary planning, expenditures management and overall governance. The program is pilot-tested in the province of Negros Occidental, which provided a PhP120 Million loan for the implementation of its Electronic Procurement System.

Community Based Resource Management Project (CBRMP)

The CBRMP, is aimed at improving the capacity of local government units to reduce rural poverty and environmental degradation through natural resources management projects identified and implemented by the LGU proponents. The Project covers four pilot regions, namely: Bicol Region, Eastern Visayas Region, Central Visayas Region and CARAGA Region and operates in 19 provinces covering 83 local government units.

As of the second quarter of CY 2004, the CBRMP is about 75% complete with a disbursement level of \$22.5 Million (PhP1.1 Billion) out of the \$38 M loan proceeds. Seven (7) LGU subprojects have been completed, while seventy-six are on-going implementation.

Local Government Finance and Development Project (LOGOFIND)

The LOGOFIND Project, with a total loan proceeds of US\$60M, aims to provide long-term financing and technical support to local government units to expand and upgrade their basic infrastructure, strengthen local capacity in governance, investment planning, revenue generation and project development and implementation with the end view of enhancing LGU credit worthiness to develop their access to alternative sources of financing. The Project has four components: **LGU Subproject Financing, Capability Building, Resource Mobilization and MDFO Strengthening.**

To date, the LOGOFIND Project, under its **Subproject Financing Component**, has approved the financing of 64 subprojects, composed mostly of public markets, seawalls and river protection, school buildings, health centers and hospitals, transport terminals and heavy equipment, submitted by 62 local government units with a total cost of PhP1.5 billion, PhP1.2 billion of which is financed by loan proceeds. Around 22 subprojects are in the completion stage while the rest are in the various phases of subproject implementation.

The **Capability-Building Component**, on the other hand, has already conducted 78 workshops and seminars to participants from LGUs, which were funded by the first component, to enhance their capability to implement their respective subprojects.

Enhanced fiscal discipline and improved revenue generation are the priority thrusts of the Project's **Resource Mobilization Component** implemented by the Bureau of Local Government Finance and pursued under its Business Tax Enhancement and Real Property Tax Administration programs. Aside from conducting various seminars and workshops directed at developing fiscal management and discipline among this component has also initially approved six (6) LGU applications for the Business Tax Enhancement program.

The objective of the fourth component, **MDFO Strengthening**, is to develop the Municipal Development Fund Office into a full-fledged financing institution with enough capability to service the funding requirements of local government units. With the establishment of the Municipal Finance Corporation, this objective is halfway into fruition.

Lending/Services

The MFC shall issue shares of stock to the Republic of the Philippines corresponding to the net value of the assets and undrawn amount of re-lending facilities of all loans from bilateral and multilateral foreign financial institutions transferred to it from the Municipal Development Fund Office. The voting power of all shares of stocks subscribed or owned by the Republic of the Philippines shall be vested in the President of the Philippines, or in such ex-officio member of the Board of Directors.

The MFC, in its transactions with local government units, may provide grants to local government units only in combination with loans but not on a purely grant basis, unless otherwise approved by the Investment Coordination Committee (ICC).

Lending Criteria

The following criteria must be met for loan consideration by the fund:

- Urban population of at least 10,000 and population growth rate of at least 2.3% per annum;
- Average annual revenue of at least 3 million pesos in last 3 years;
- No arrears for second or subsequent applicants;
- Minimum debt service coverage of 1.2.

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