



# Municipal Fund

Global Finance for Local Needs

Financing Municipal Water Services  
Plock, August 24, 2005



# Agenda

- Sources of Financing
- Market Parameters
- Partial Credit Guarantee
- The Municipal Fund
- Case Study: City of Johannesburg, South Africa

# Challenges for local governments

- **Large capital investments needed for universal infrastructure service delivery**
- **Significant investments needed for backlog of deferred maintenance**
- **Limited capacity to increase user charges**
- **Limited available debt capacity**
- **Need for institutional capacity building**

# Finance for Sub-sovereigns

- Own cash generation
- Taxes
- Transfers from central governments
- Commercial banks
- Local capital markets (bonds)
- Development banks, multilaterals, etc.

# Finance and Technical Assistance

- **Financial Products**
- **Technical Assistance Products**

# Financial Products for Municipalities

- **Long term local and foreign currency loans**
- **Pooled loans/bonds for smaller municipalities**
- **Partial Credit Guarantees for bonds**
- **Partial Credit Guarantees for loans from local banks**

# TA Products for Municipalities

- **Technical Assistance**
  - Carbon credits
  - SMEs
  - Output Based Aid
  - Business Simplification
- **Public-Private Partnerships (PPPs)**
- **Housing Finance**

# Bank Financing

- Close relationship between borrower and lender
- Easier to fit conditions to borrower's needs
- Disbursements and repayments can be phased with projects cash flows
- Volumes constrained by regulation, bank prudential limits
- Maturities must fit bank's funding and strategy
- Easier to negotiate (maybe)

# Bond Financing

- Mobilizes institutional and retail savings
- Allows local citizens to share in local financing and development
- Information becomes public, so very positive for transparency
- Creates a “new constituency” of investors
- Market comparators quickly enable peer reviews of sub-sovereigns

# Bond Financing (cont.)

- Long-term savings enable long-term investment
- Bond financing very suitable for infrastructure investment
- Potential volume of funding available is enormous
- Introduces competition for the banks
- Structured financings are quickly developed, driving prices down

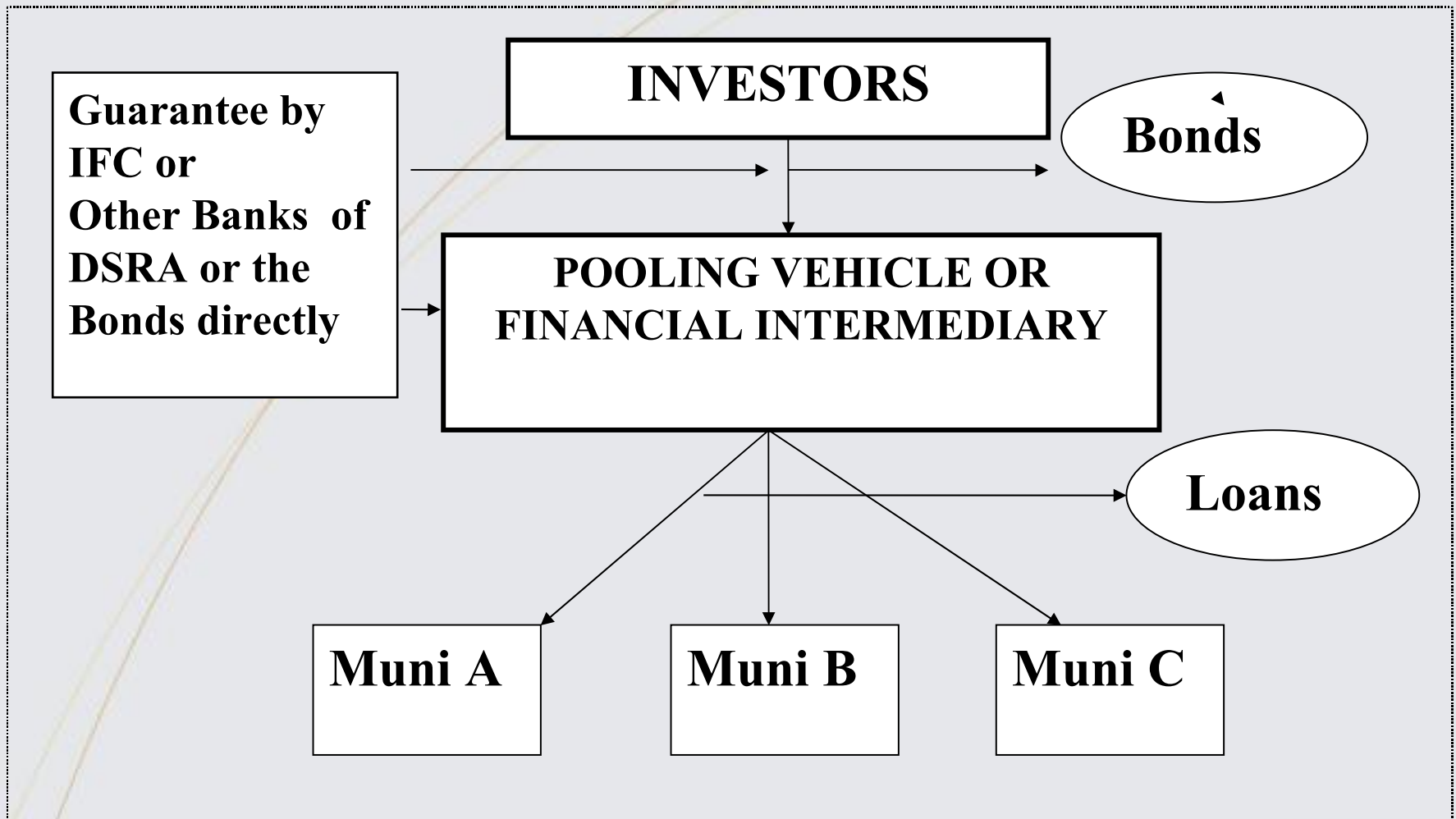
# Bond Financing (cont.)

- Secondary markets develop to provide liquidity
- Experience has shown market is relatively stable financing source
- Large amounts can be raised for long terms
- But there are minimum sizes
- Drawdown and repayment schedules set by market, rather than needs

# Bond Financing (cont.)

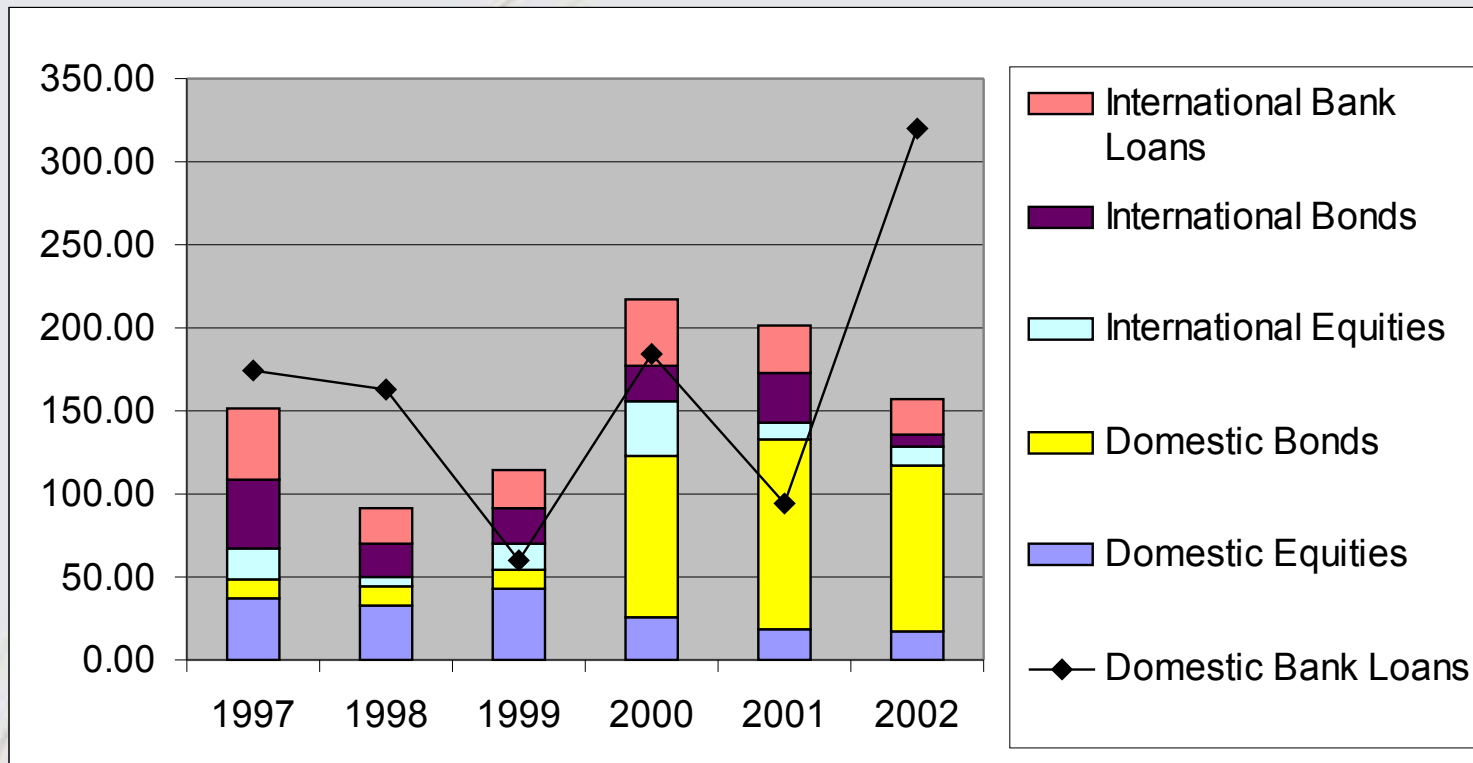
- Terms are less flexible
- If problems arise, borrower must deal with many bond holders, not a few banks
- Supplemental to existing financing

# Pooled Loan/Bonds

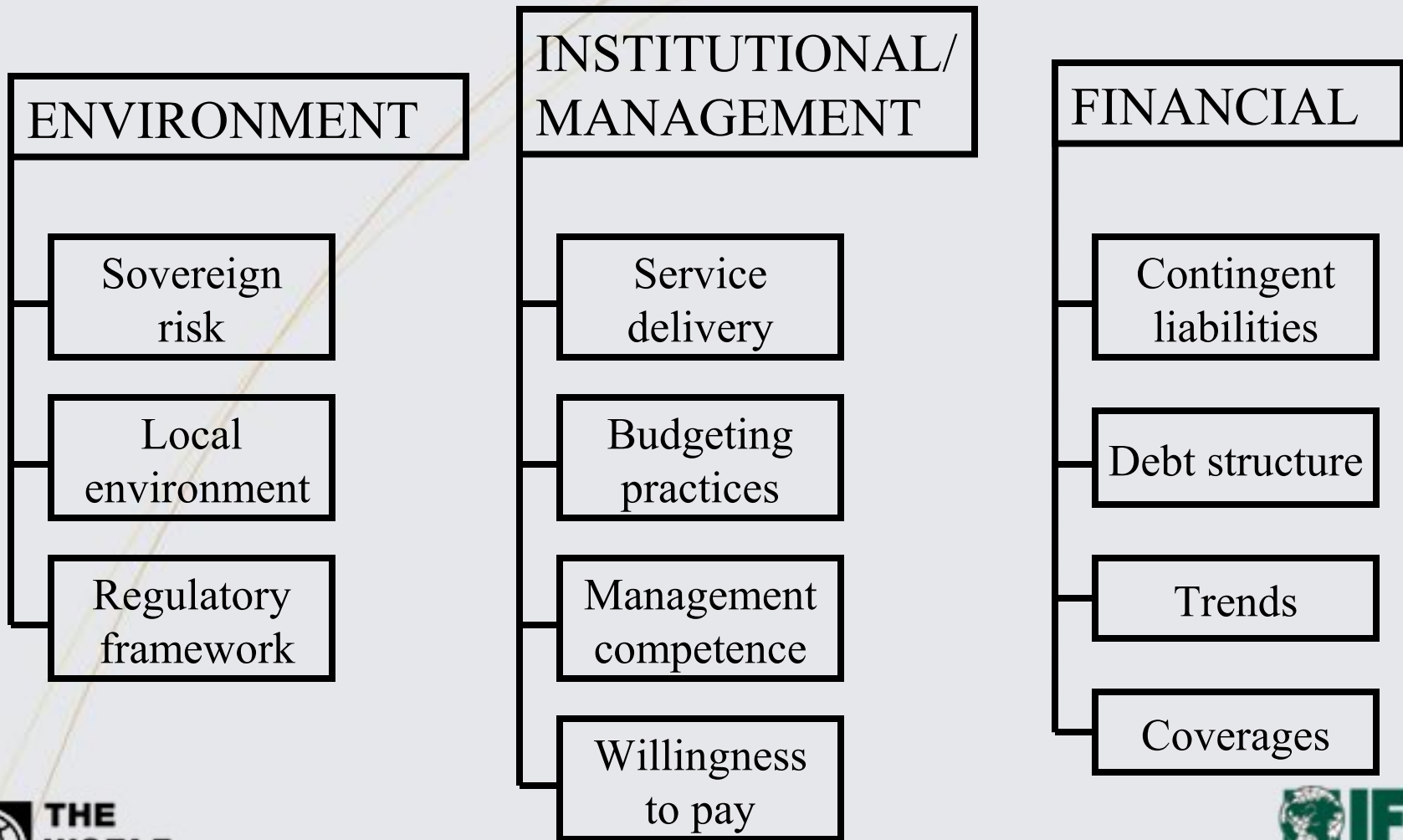


# Emerging Market Corporates

## Financing Sources (in billions of U.S. dollars)



# Market Parameters



# Typical Order in which Borrowers Access the Domestic Debt Market

- Government (sovereign & quasi-sovereign)
- Top-tier domestic corporates
- Supranationals \*
- Structured Finance issuance
- Other domestic corporates
- Other foreign borrowers

# Partial Credit Guarantee Basics

- IFC irrevocably guarantees the due and punctual payment of principal and interest, up to the guarantee amount
- The guarantee can be used for either a loan or a bond
- The guarantee is structured to reduce the probability of default and increase recovery given default
- IFC's objective is to offer the minimum amount of guarantee necessary for a successful transaction, thereby reducing the cost to the issuer

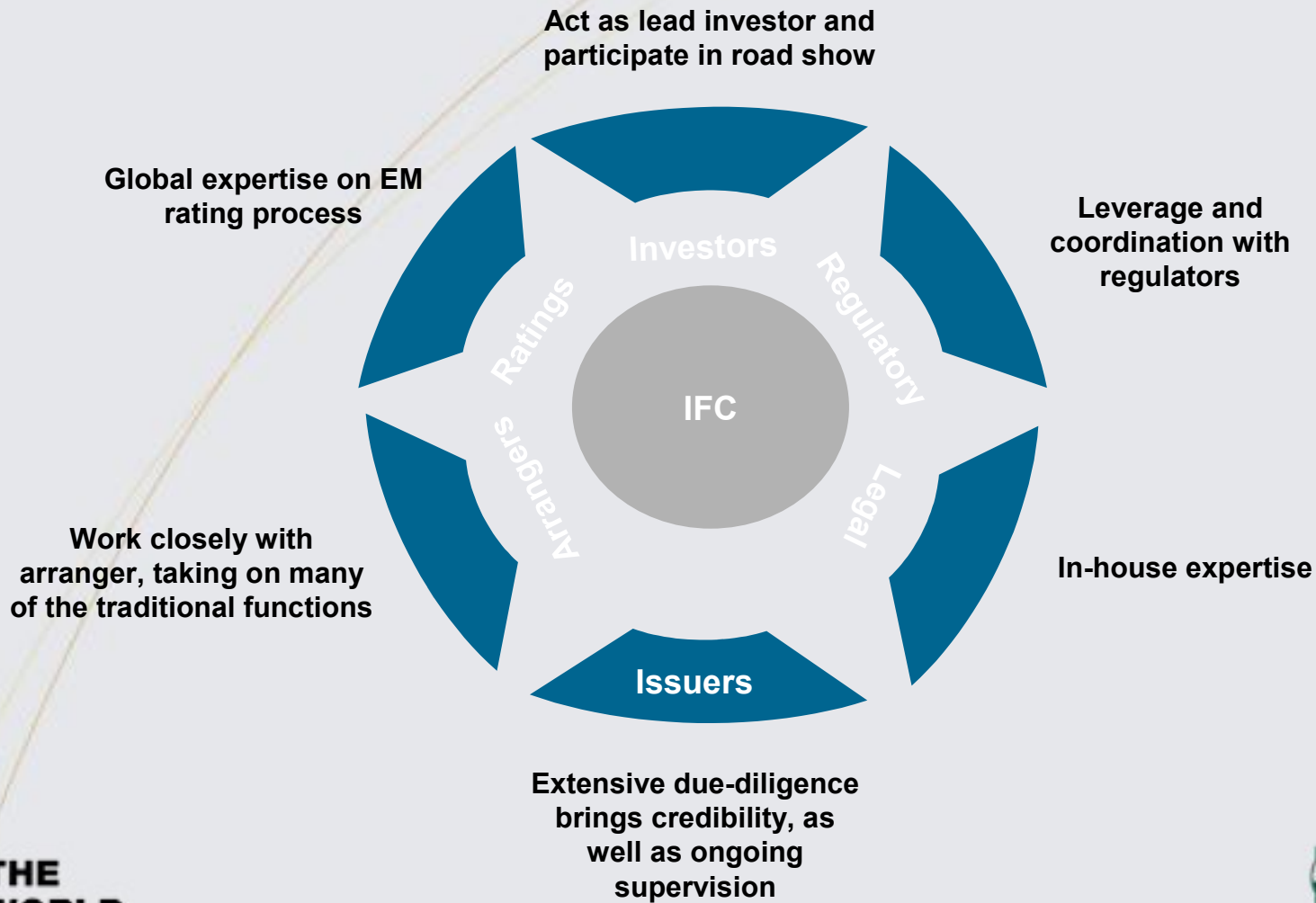
# Partial Credit Guarantee Product Objectives

- Enable clients to access new investors
- Provide long-term local currency financing to clients
- Mobilize additional financing
- Promote development of domestic capital markets
- Provide the minimum amount of credit enhancement necessary in order to facilitate a successful transaction

# Partial Credit Guarantee Benefits

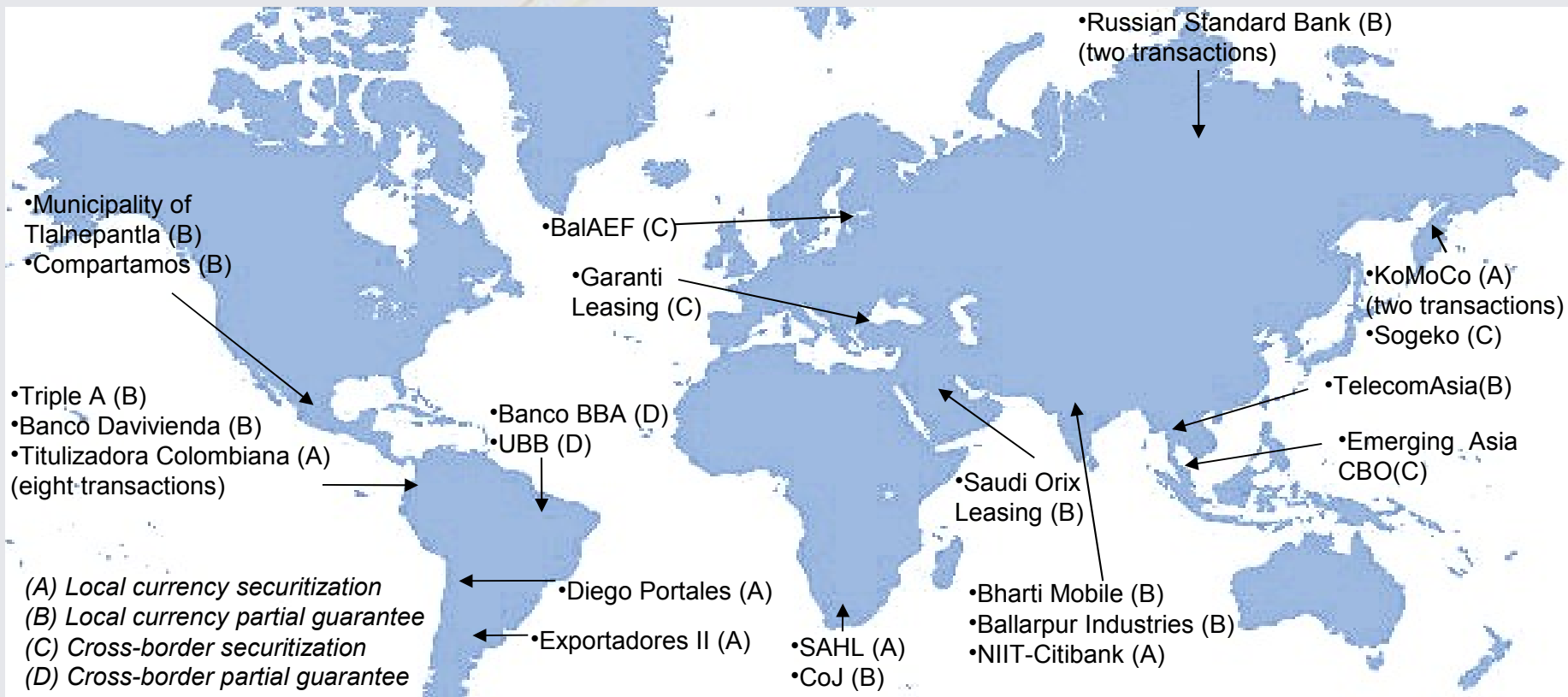
- To Borrowers:
  - Access wider investor base through credit enhancement
  - Increased rating if market issuance
  - Local currency financing
  - Longer-term financing
  - Track record
- To Investors:
  - Increased recovery given default
  - Reduced probability of default
  - IFC supervision

# Partial Credit Guarantee IFC Value Added



# Structured Finance at IFC

- Completed 31 transactions in 13 different countries
- Mobilized a total of US\$2,477.3mn (US\$479.8 mn during FY04) with IFC's credit exposure of only US\$467.1mn



# The Municipal Fund



## The Municipal Fund

**The Municipal Fund, a joint World Bank/IFC initiative, seeks to provide direct loans and help catalyze commercial financing at the sub-sovereign level for important development projects without a sovereign guarantee.**

# The Municipal Fund: Products

- Long-term senior and subordinated loans on commercial terms in major currencies and local currencies in several countries.
- Partial-credit guarantees on commercial terms on single-credits (loan, bond, commercial paper etc.) or portfolios in major and local currencies.
- Where appropriate, equity investments in project companies, financial institutions, or other entities.
- Quasi-equity instruments such as convertible debentures, convertible loans, and income warrants.

# The Municipal Fund: Skills

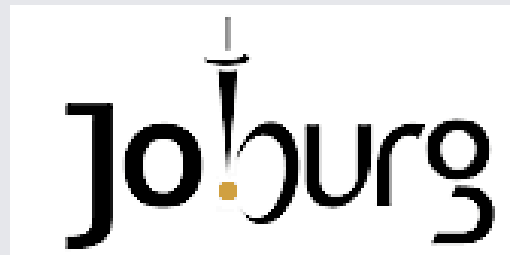
- Draws upon the combined sectoral, credit and structuring expertise of the World Bank and IFC.
- Invests from IFC's AAA-rated balance sheet and has access to IFC's full line of financial products.
- Appraisal processes modeled on private equity funds, allowing for a flexible and rapid response to clients.
- Has access to technical assistance managed by the World Bank Group and other development partners.

# The Municipal Fund: Scope

- Supports investments made by a wide range of sub-national entities (local, provincial and state governments, enterprises, financial intermediaries)
- Considers projects in a wide range of essential public services including: water, wastewater, transport, electricity, solid waste, district heating.
- Typical size of investments US\$5-50 million (larger and smaller investments considered depending on development impact).
- Sub-national entities manage their investments directly or in the context of public-private partnerships.

# The Municipal Fund

## CASE STUDY



## CITY OF JOHANNESBURG SOUTH AFRICA