



**IFC**

INTERNATIONAL FINANCE CORPORATION  
WORLD BANK GROUP



**THE  
WORLD  
BANK**



# Municipal Fund

*Global Finance for Local Needs*

*October 1, 2004*

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# The World Bank Group and Municipal Finance

- **The World Bank has provided billions of dollars over the years to municipalities around the world - always with sovereign guarantees, as required by the Bank's charter.**
- **The World Bank has also provided advice and knowledge support in decentralization.**
- **IFC has invested in a range of municipal/sub sovereign sectors – water, roads, ports – however, it has focused on projects with majority private sector sponsorship.**

*Thus, the Bank Group has a gap for investment in well run sub-sovereign operations without sovereign guarantees*



# The Municipal Fund



## The Municipal Fund

**The Municipal Fund, a joint World Bank/IFC initiative seeks to help fill this gap by structuring and investing in sub-sovereign projects in emerging markets.**



# Municipal Fund Background

- **Established in 2003, The Municipal Fund is a joint World Bank/IFC initiative to invest in projects at the state and municipal level - *without sovereign guarantees.***
- **Aims to bring together IFC's credit assessment and market expertise and the World Bank's public policy and capacity building experience to address the needs of the municipal finance market.**

# Municipal Fund Background

- **We support investments made by states, cities, municipalities and municipally controlled entities in numerous sectors including: water, wastewater, electricity, district heating companies, solid waste and urban transport.**
- **We can also support public-private projects such as leases, management contracts and concessions, either through investments on the municipal side or in private concessions/SPVs where control is municipal or sub-sovereign.**

# Municipal Fund Products

- **The Municipal Fund invests from IFC's balance sheet which is AAA and has full access to IFC's strong credit assessment, financial product line (including local currency financing) and risk management capabilities (swaps, options, forward contracts).**
- **Full array of financial products - can provide debt, guarantees and equity/quasi equity/subordinated debt.**
- **No formal limits – typical investment range from US\$5.0-US\$50.0 million.**

# Municipal Fund Investment Criteria

- **Creditworthiness.**
- **Financial situation of borrowing entity.**
  - **Predictability of cash flows to repay debt.**
  - **Tariff reform for utility projects.**
- **Supplementary to the World Bank.**
- **Degree of decentralization in the country.**
- **Degree of municipal/state level control.**
- **Essentiality of investments.**
- **Degree of commercialization.**
  - **commercial budgeting.**
  - **corporate structure.**
  - **independence of operations.**
- **Regulatory framework.**
- **Capital market component.**
- **Absence of direct or implied liability for the sovereign.**
- **Potential for local currency financing.**

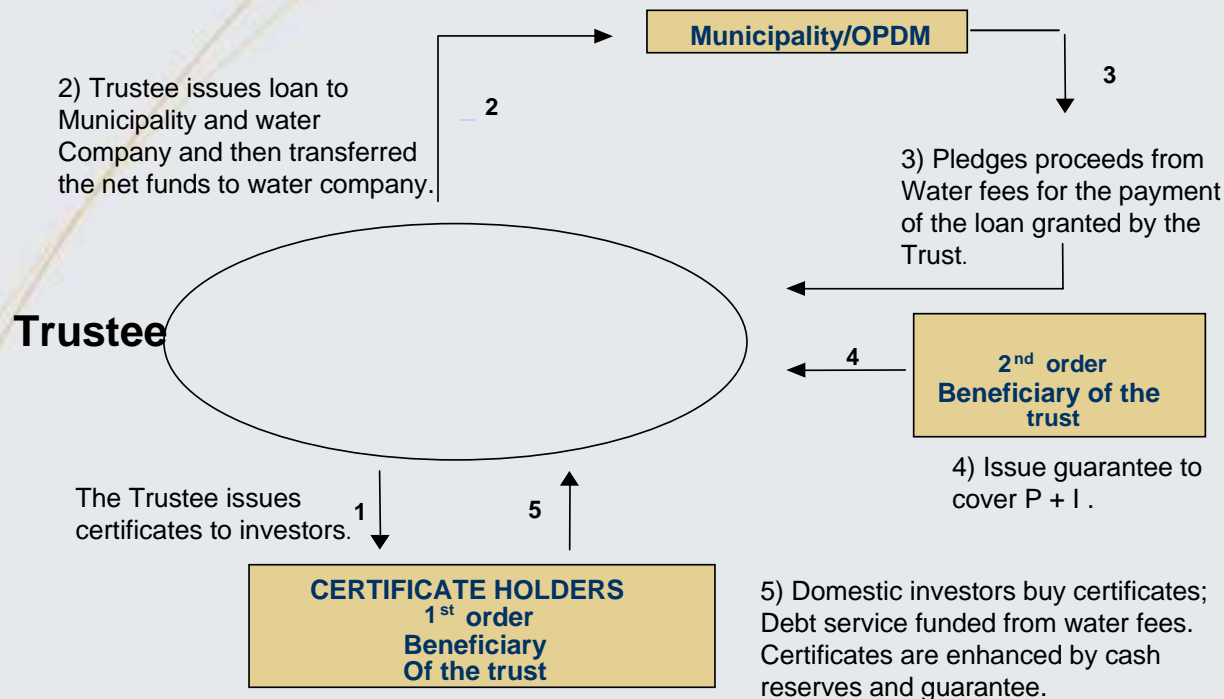
# Example: City of Johannesburg Bond

- **On July 24, 2004, the City of Johannesburg issued a R1-billion (US\$ 150 million), 12-year bond to refinance its debts and fund priority infrastructure.**
- **The Municipal Fund along with DBSA provided a 40% (US\$60 million) Partial Credit Guarantee to the issue.**
- **Partial Credit Guarantee boosted the local investment rating of the bond by Fitch Ratings by three notches from A- to AA-.**
- **The issue was successful and oversubscribed**

# Example: TMWC Mexico

- Bonds were sold successfully (US\$9MM).
- First bond issue without intercept of federal transfers.
- Direct municipal risk covered.

## Transaction Structure



# Municipal Fund – Other Typical Transactions

- A loan to a municipality to finance sanitation related capital expenditure to be managed/implemented by a private management contractor, lessor or concessionaire.
- A loan to State or Provincial electricity distribution company to finance a portion of their medium term capital expenditure program.
- Subordinated debt or equity in a financial intermediary that has substantial municipal exposure or a guarantee for a loan made by a financial intermediary to a sub-sovereign credit.
- A loan to a corporatized municipal water company to finance a portion of its capital expenditure program devoted to Unaccounted for Water (UfW) reduction.

# Our Pipeline

- **Actively reviewing deals in:**
  - **China, Philippines, Vietnam**
  - **Brazil, Colombia, Peru**
  - **India, Pakistan**
  - **Bulgaria, Croatia, Romania**