

Prospects for establishing Pooled Financing Mechanism in Bulgaria



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Local Authorities - a driver for growth!



”Given that sub-national governments (SNGs) in OECD countries make more than two-thirds of all capital investment, *investing for growth depends crucially on actions at the regional and local levels.*”

Bulgarian municipalities have extensive investments needs

- ✓ Only 18 percent of the municipal roads are considered to be in good condition;
- ✓ Bulgaria is the least energy efficient economy in the EU;
- ✓ The investments needed in the water sector for 2014 - 2023 are projected to €6.1bn.

The EU-funds will cover 30 – 40 percent of the investments needed in the water sector during the programme period.

How could local authorities finance their investments?

- ✓ Own revenue
- ✓ Central government grants
- ✓ PPP
- ✓ Bank loans
- ✓ Individual bond issues

Bond issues via

Pooled Financing Mechanism (PFM)

Advantages of PFM

- Gives access to capital markets for small and medium size local authorities
- Reduces the cost of borrowing and processing,
- Reduces risk through diversification, even for big cities
- Concentrates financial expertise
- Gives incentives to improve creditworthiness
- Conduit for the transfer of knowledge
- Increases transparency
- Supports capital budgeting and developing of debt strategies at local level

Prerequisites for introducing PFM

- ✓ Willingness to cooperate
- ✓ Sufficient creditworthiness
- ✓ Means to “transport” the creditworthiness
- ✓ Regulatory access to financing options
- ✓ Legal possibilities to cooperate and to carry out joint borrowing operations.
- ✓ Capital market that could absorb municipal bond issues

Municipal Investment Fund in Bulgaria

Set in NAMRB Strategic Plan for 2017

Rationale

- A big number of municipalities have no access to the credit market – low creditworthiness, high borrowing costs, lack of knowledge;
- Debt financing is the means allowing the real users in the future to pay for using the infrastructure built today;
- Available extensive European PFM experience.

Municipal Investment Fund in Bulgaria

Main Functions

Funding/guarantying of joint municipal investments through bong issuing

- ✓ The local governments formally request the credit resources needed
- ✓ Based on the requests, the fund issues bonds at the local or international market
- ✓ The fund provides the acquired resources to the local governments

Municipal Investment Fund in Bulgaria

Main Functions

Investing of municipal cash-flow surpluses

- ✓ The fund accumulates the municipal surpluses and invests them in various low-risk financial instruments
- ✓ Via the fund the municipalities access the capital markets for higher returns without knowing the market
- ✓ Via the fund the municipalities collectively become considerable institutional investor.

Municipal Investment Fund in Bulgaria

Shareholding options under consideration

➤ Municipalities

➤ NAMRB



➤ FLAG



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