



MUNICIPAL FINANCE

Infrastructure Finance • Municipal Reforms
Water & Sanitation Finance • Energy Finance

PROJECT APPROACH

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Financing urban infrastructure/services in developing countries is characterized by four primary challenges: underdeveloped capital markets for local government financing, weak local capacity in delivering services and in managing and financing infrastructure projects, limited local resource mobilization, and poorly organized information to monitor fiscal performance and financial status. Our approach to municipal finance is to:

Create Enabling Conditions. We create enabling conditions for the adoption of wide-scale and sustainable municipal reforms by establishing appropriate policy environment, fiscal incentives, and regulatory and institutional frameworks. Our project work is focused on promoting:

- **Urban Reforms.** We assist governments in formulating comprehensive policy, legal, legislative, and regulatory changes that facilitates the development of municipal financing. In India, TCGI and its partners led policy makers to adopt policies and programs that facilitated the commercial viability of urban infrastructure services through the Financial Institutions Reform & Expansion (FIRE) program.
- **Good Governance.** We assist national, state, and local governments in adopting good governance policies to build managerial and financial capacity. Our work includes designing a five-year local governance program for USAID/Colombia and managing the Good Urban Governance in South Asia (GUGSA) program to evaluate and disseminate good urban governance practices in Bangladesh, India, Nepal, and Sri Lanka.

Create Implementing Capacity. To improve the ability of local governments to finance infrastructure projects, we focus on building capacity for commercially viable infrastructure at the state and municipal levels. Our implementing capacity work focuses on:

- **Local Resource Mobilization.** Many local governments fail to generate sufficient local revenues to cover operating costs, let alone capital costs. Many municipalities rely heavily on national and state funding for support. TCGI works with governments to improve local financial resources. In Zambia, we completed an assessment of local government revenue generation and intergovernmental transfers to improve local financial capacity to deliver services.
- **Credit Worthiness.** Central to the development of market-based infrastructure financing is an active municipal credit rating system. We assist municipalities in acquiring credit ratings and improving credit worthiness. Under FIRE, we have worked with the country's leading credit agencies to conduct 35 municipal credit ratings. In the Philippines, we support the municipal bond insurance work of LGUGC through the use of the credit guarantees under the USAID Development Credit Authority (DCA).
- **Commercially Viable Projects.** We believe infrastructure and urban environmental services

(water, sanitation, and solid waste) can be commercially viable. In India, for example, we have worked with more than 60 cities to structure commercially viable municipal projects. Our work resulted in the issuance of India's first municipal bond in 1996 and first pooled municipal bond in 1998 and second pooled municipal bond in 2002. To date, TCGI has assisted in more than 13 municipal bond offerings in India alone.

- **Human Capital Development.** For projects to be truly sustainable, we also focus on human capital development. We are engaged in educating and training both government officials and financiers on municipal finance. In South Africa, TCGI provided training for government officials in infrastructure development. The seminars were designed to increase the capacity and understanding of local city managers to be more effective, responsive, and accountable in municipal finance.

Create Results. It is often not enough to create enabling conditions and implementing capacity; we are driven by results. Our efforts are focused on improving quality of life for communities and our measure of success is based on the number of completed projects. We succeed in reaching our goals through the use of:

- **Innovative Finance.** TCGI prides itself on the use of innovative financing. In India, we have established new financial instruments, municipal bonds, to finance local infrastructure development. In Jamaica, we explored the use of remittance bond financing. In Kyrgyzstan, we are structuring a microloan program to assist rural communities in accessing potable water.
- **Layered Financing.** Our innovative approach extends to our financing structures. We recognize that these projects are perceived by investors to be risky, so we spread the risk among several parties where necessary. In the structuring of the pooled municipal bonds, we used a multilayered financing approach to make the transaction more attractive for investors.
- **Credit Enhancements.** To facilitate private sector participation in infrastructure financing, we use credit enhancements to reduce perceived investor risk. Our projects utilize the USAID Development Credit Authority (DCA), a **credit** guarantee program, to reduce project risk. As advisers to the DCA program, we have a unique understanding of the program and its potential for municipal finance.

US-Indo Financial Institutions Reform and Expansion (FIRE) – Debt Component

The Indo-USAID FIRE-D Project assists municipal and state governments in India to develop sustainable urban environmental services (water, sewerage, and solid waste) and to ensure that the poor have access to them. The project aims to achieve this goal by: (1) increasing participation of municipalities, the private sector, and community organizations in the development and delivery of commercially viable urban infrastructure services, (2) improving the ability of municipal and state governments, infrastructure agencies, and other urban professionals to manage urban growth, mobilize resources, and improve infrastructure services, and (3) supporting development of a market-based infrastructure finance system.