


Swiss-Ukrainian project
DESPRO
Decentralization Support in Ukraine

 Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
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skat Swiss Resource Centre and
Consultancies for Development

MUNICIPAL BONDS



**PUBLIC
SERVICES**

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The Swiss-Ukrainian Decentralization Support Project DESPRO is an international assistance project working in the reform of local self-governance (or "decentralization") in Ukraine. DESPRO is funded by the Swiss Confederation via the Swiss Cooperation Office and implemented by Skat, and has been active since 2007.

1 Intro

The decentralization reform in Ukraine has posed new challenges for local governments in relation to the development of local infrastructure. This includes sectors where DESPRO has traditionally been an active contributor to change: water supply, wastewater and waste management.

According to DESPRO's research, the main sources of financing for the development of communal infrastructure are usually local budgets, and rarely regional or state budgets. External borrowings in the form of loans from domestic banks and international financial institutions (e.g. the World Bank, European Bank for Reconstruction and Development, European Investment Bank, or the Nordic Environment Finance Corporation), although present in the financing system, are accessible to larger cities only. The emission of municipal bonds has only happened periodically and in a non-systemic manner, and has not played a role in borrowing for the development of local community infrastructure..

The aforementioned financing instruments are not adequate to meet the current needs



International experience exchange on municipal bonds during the study visit to Plonsk, Poland, by the representatives of Ukrainian securities market

of communities linked to developments in decentralisation reform, and the long-term financing of infrastructure. For this reason, DESPRO has been actively involved since mid-2017 to promote both local borrowing mechanisms among the stakeholders and the public, with a view to influence the development of the regulatory environment in this area.

2 Achievements (2017-2020)

Although local borrowing still requires further developments, the following results characterize some positive achievements for the sector.

- Stakeholders at national level have joined forces and agreed on ways to develop the sector

Under DESPRO's initiative, a Stakeholder Platform was created in 2019, involving key

players in the local borrowing sector:

- the National Securities and Stock Market Commission;
- the Committee of the Verkhovna Rada of Ukraine on Financial Policy and Banking;
- the banking sector;
- Professional communities of the capital market sector;
- over 30 local councils.

¹ http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=64518

The main objective of the platform is to improve the legal framework for regulating the municipal bonds sector. In particular, joint efforts resulted in the development of the following draft laws:

- "On bonds of local development funds"¹;
- Amendments to the Law "On Securities and Stock Market", which will be reformatted into the Law "On Capital Markets and Organized Commodity Markets" and opens up new opportunities for using the Local Development Funds and other financial tools.

A separate area of activity for DESPRO, together with partners in the development of municipal infrastructure bonds, has been the promotion of this sector. DESPRO's activity also resulted in an increased awareness of local councils (potential emitents) about the potential of this tool. At least 200 representatives of local



Briefing on the Polish financial system for DESPRO partners during the study visit to the Poland's Ministry of Finance

self-government bodies and experts from different regions of Ukraine participated in a study as well as a training events organized by DESPRO on this topic.

3 Process/Methodology

The activities of the Stakeholder Platform are systematic. Advisory meetings are held at least once a month. An important indicator of the institutionalization of this mechanism is that the platform is led and meetings are chaired by the national regulator - the National Securities and Stock Market Commission.

The collaboration between DESPRO and experts seeks to improve methodological support for change. Since 2017, 5 educational and scientific reports have been published (see Resources section below). The purpose of these publications is to enable local governments to make extensive use of municipal bonds to finance local infrastructure projects.

DESPRO developed a curriculum for the training of professionals of local self-government bodies and communal enterprises on "Financing Local Investment Projects" jointly with the V. Hetman National Economic University of Kyiv.

The purpose of the training course is to master the knowledge of theoretical, regulatory and applied aspects of financing local investment projects, and providing practical skills in managing the local development budget for the territorial community. This includes

developing a business plan for local investment projects; attracting financial resources for the implementation of local investment projects; preparing the emission prospectus bonds of municipal and corporate bonds, as well as financial and budgetary reports; and managing financial risks during the development and implementation of local investment projects. The course is scheduled to begin in September 2020.



International experience exchange on municipal bonds during the study visit to the Regional Accounting Chamber in Poznan, Poland, by the representatives of Ukrainian securities market

The information component aims to disseminate information about municipal bonds instruments to fund local infrastructure projects to a wide audience. So far, 4 trainings and practical seminars and 2 webinars on the topic "Funding Tools for Local Infrastructure Projects" have been held, with about 200 participants in total.

4 Lessons learned

Admittedly, after almost 3 years of work, interest from local governments in the use of municipal bonds has not been very high. It could be explained by the fact that in the Ukrainian context, municipal bonds have been considered as rather "expensive money". This is due to the fact that interest rates and other related costs make municipal bonds comparable to commercial loans. This made municipal loans unattractive for both smaller and larger communities – the former are not allowed to tap into them, and the latter can access loans from international financial institutions that are "less expensive".

Opening the municipal bond market to a larger scale of communities (including, for instance,



Work meeting by the experts of Ukrainian securities market at the National Commission on securities and stock market

small towns or even bigger village communities) through legislative changes only is unlikely to cause a "boom" in bond emission. At the same time a new "window of opportunities" has been opened due to the new financing policy recently introduced by the National Bank of Ukraine, which entails a lowering of the discount rate combined with the allocation of UAH 5 billion earmarked for the redemption of municipal bonds. This could give a boost to the municipal bonds market in Ukraine in the next 3-5 years.

Resources

1. Kozak V., Moskvin S. (2017). Emission of bonds of communal enterprises and local borrowings: Practical guide. Access: https://despro.org.ua/despro/Despro_2017_oblig_print.pdf
2. Buriachenko A., Kozak V., Leonov D., Moskvin S. et al (2019). Financing of local investment projects. Access: http://usmdi.org/library/nl_14p.php
3. V. Hetman National Economic University of Kyiv, UCMA, DESPRO (2019). Curriculum for the Training of professionals of local self-government bodies and communal enterprises on "Financing Local Investment Projects". Access: <https://www.facebook.com/events/172867000098087/>
4. Kozak V., Moskvin S., Pospolitak V. (2019). Financial instruments: emission of municipal bonds. Access: https://despro.org.ua/library/publication/fin_instr_munic_2019.pdf
5. Kozak V., Moskvin S., Pospolitak V. (2019). Financial instruments: operations with the municipal bonds. Access: https://despro.org.ua/library/publication/fin_instr_obl_2019.pdf

