

## CAPITAL MARKETS &amp; COMMODITIES

## Sweden transforms public finance

Kommuninvest, a little-known but striking experiment, could be a global model for local authorities, writes **David Oakley**

Lars Andersson is hardly known outside his home town, an hour's train ride to the west of Stockholm.

But the former finance officer from the ancient city of Örebro – Sweden's commercial capital in the Middle Ages – is responsible for a striking experiment that could provide a model for other countries in the way they use the capital markets to finance public projects.

For the past two decades, his brainchild Kommuninvest, which he launched in 1986, has been issuing bonds across Europe and as far afield as Japan and China.

Launched to help Örebro Municipality – population just 126,000 – raise money for local infrastructure, it has become the country's local government funding agency, expanding to cover 185 municipalities and counties with a borrowing programme worth \$5bn a year.

At a time when investors may start to appreciate top-grade debt should the credit cycle turn, Kommuninvest – which has a triple-A rating from both Moody's and Standard & Poor's – has become a talking point in the market.

Indeed, the European Bank for Reconstruction and Development (EBRD) is now using it as a sounding board – and a possible prototype for similar agencies in the emerging eastern European countries.

Robert Stenram, its chairman, says: "We have been contacted by the EBRD to discuss setting up similar bodies in eastern Europe. It shows what influence agencies like ours have. We have expertise and the EBRD is aware of that."

The philosophy behind Kommuninvest is simple – big is better, because size provides the necessary muscle to compete in the capital markets. In other words, Sweden's local authorities can raise money more cheaply by joining forces under the Kommuninvest umbrella than on their own.

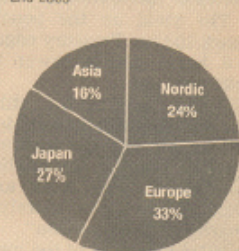
By drawing on its triple-A rating and the power of Swe-



Cutting costs: Örebro town hall honours previous efforts

Nordicphotos

Investors by region  
End 2005



Source: Moody's

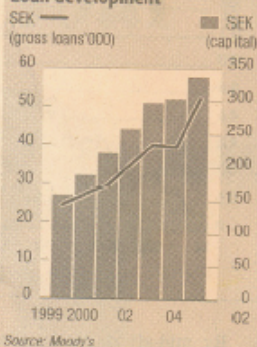
including Örebro's city hospital and a now flourishing port at Varberg, just south of Gothenburg.

Mr Stenram says this "edge" will enable the agency to expand further. "We started out with 11 members out of 310 [290 municipalities and 20 county councils]. Our goal is to have all 310 as members."

"Every one of them could benefit by using our cheaper lending rates. Often local authorities don't want to use us for political reasons, but eventually the economics of this will win the day. This big advantage should help us grow from a borrowing programme of \$5bn this year to we hope \$6bn next year and up to \$10bn by 2010."

The agency mainly issues bonds in Europe and Japan (it is not registered in the US), raising most of its money from European investors. At the end of 2005, 57 per cent of its investors were from Europe, against 27 per

Loan development



Source: Moody's

cent from Japan and 16 per cent from the rest of Asia.

So far this year it has launched several Uridashi bonds in Japan (any bond priced in Japan by a foreign entity that can be sold to Japanese retail investors).

It has also launched a \$1bn five-year bond, its second benchmark size dollar bond, at 10 basis points below the London Interbank Offered

Rate or Libor. Its next big target is the US, where Kommuninvest hopes eventually to issue debt.

Mr Stenram says: "We are not funding ourselves in the States because we have not done the legal filing."

"This is something we have to consider. The initial cost for the whole filing procedure is very expensive, but clearly the US would offer us more diversification and allow us to reach another very large market."

For the moment, however, the agency is content to concentrate on its home market with plans to sign up Sweden's three biggest municipalities, Stockholm, Gothenburg and Malmö.

These municipalities consider themselves large enough to go it alone, but that could change.

"We are close to a deal with Uppsala, the fourth largest municipality. If we managed to get a deal with them, that would be significant and may help us with the others," Mr Stenram says. "The more members we attract helps to bring in yet more."

"If we could get up to 220 members, then our membership could really accelerate, particularly if we were able to sign up the biggest municipalities. That might be a tipping point."

Next month the agency will focus on how it might reach this "tipping point" when it meets with other individual local government funding bodies in Paris for their regular meeting, held every 18 months.

The other Nordic countries – Denmark, Finland and Norway – and Japan have similar agencies.

Mr Stenram says: "We swap ideas, discuss strategy and generally look at how we might be able to improve what we offer."

"This is an evolving business. We may also discuss whether other countries should copy what we do." He admits, however, that the UK, with its centralised tradition, is unlikely to follow Mr Andersson's example.