



## The Municipal Guarantee Board (the MGB) guarantees MuniFin's funding

### Overview

- MuniFin's funding is guaranteed by the Municipal Guarantee Board (the MGB), which is a body established and governed by public law.
- The MGB's membership consists of all Finnish mainland municipalities, have an unlimited right to levy taxes. Membership in the MGB is permanent.
- All mainland municipalities cover 100% of the mainland population.
- The MGB has a statutory right to collect contributions from its member municipalities without any court judgment.
- Members of the MGB are jointly responsible (in proportion to their population) for all MGB's obligations and commitments.
- A municipality cannot be declared bankrupt.

### Finnish municipalities are permanent members of the MGB

MuniFin's funding is irrevocably and unconditionally guaranteed by the MGB which is a public law body established by the Act on the Municipal Guarantee Board (the MGB Act)<sup>1</sup>. The guarantees provided by the MGB are irrevocable and accordingly cannot be cancelled after they've been granted. The guarantees are also unconditional: they cover all sums payable at any time in respect of bonds MuniFin has issued.

All Finnish mainland municipalities are members of the MGB. Due to the autonomy of the Province of Åland, the municipalities of the Province of Åland (representing less than 1 per cent of the population of Finland) are not members of the MGB. Membership of the MGB is governed by the MGB Act (refer to section 2), which does not include any mechanism for the members to resign or terminate their membership in the MGB. Accordingly, the membership is permanent.

The responsibility of municipalities for MGB's obligations is governed by the MGB Act. Pursuant to section 10, the members are jointly responsible (in proportion to their population) for the funding of all MGB's obligations and commitments which cannot be otherwise covered.

In accordance with section 11 of the MGB Act, the financial obligations arising out of the guarantees granted by the MGB are primarily covered with the assets of the MGB's fund. If the assets of the fund are not sufficient to cover the MGB's obligations, the MGB is entitled to collect contributions from the member municipalities. The contributions can be collected without any court decision or judgment (section 14) and the MGB's decision to collect contributions is enforceable regardless of any appeals (section 15). This means effectively two things: If necessary, the MGB can collect the payment from municipalities in judicial enforcement proceedings and the initiation of judicial enforcement proceedings against the municipality does not require any court judgment. Accordingly, when the MGB collects, a municipality does not have a right to refuse payment. In addition to its right to collect from municipalities, the MGB has a liquidity facility, which can be used to cover MGB's obligations arising out of guarantees.

<sup>1</sup> An unofficial English translation of the MGB Act (487/1996) is available on the MGB's website at <https://kuntientakauskeskus.fi/en/municipal-guarantee-board/mgb-act/>

## Finnish municipalities cannot be declared bankrupt

Finnish municipalities have a parallel status with the Central government confirmed in the Constitution of Finland<sup>2</sup>. Finnish municipalities have an unlimited right to levy taxes. The Ministry of Finance is responsible for monitoring the municipal sector. In case a municipality would show a deficit, by law it would need to draft a financial plan how it will balance its finances over a four-year period (refer to the Local Government Act<sup>3</sup>). By virtue of the Finnish Bankruptcy Act<sup>4</sup> Chapter 1 Section 3 a municipality cannot be declared bankrupt. A municipality has the option of increasing the municipal tax rate or cutting expenditures, in any case they need to maintain the services for citizens that they are required by law to provide.

Although no bankruptcy proceedings can be initiated regarding a municipality, there is a separate mechanism in the Local Government Act for municipalities in a very difficult financial position (refer to section 118). The process for municipalities in a very difficult financial position involves both the municipality in question as well as the central government (Ministry of Finance). This process may result in a proposal to merge the municipality with another municipality. The Finnish government can decide on such a merger even without the municipalities' consent. After the merger, the resulting larger municipality will be responsible for all the obligations of the preceding merged municipalities. The Act on Local Authority Boundaries<sup>5</sup> includes provisions on how mergers of municipalities can be carried out.

There are no explicit provisions in Finnish law that guarantee government support to municipalities. However, the government can decide on appropriate support measures for the municipal sector. There have been instances where the government has provided municipalities with support. The most recent example would be the government's support to municipalities in the Covid-19 pandemic with the purpose of safeguarding the conditions of provision of basic public services. The government's Covid-19 support to municipalities consisted of various support measures and were based on several parliamentary acts. These included, among others, government grants to hospital districts which were provided in accordance with the Act on Discretionary Government Transfers<sup>6</sup> by issuing a government decree.

### More information about the Municipal Guarantee Board (MGB):

<https://kuntientakauskeskus.fi/en/municipal-guarantee-board/joint-funding-system-of-municipalities/>

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2 An unofficial English translation of the Constitution of Finland (731/1999) is available at [https://www.finlex.fi/en/laki/kaannokset/1999/en19990731\\_20180817.pdf](https://www.finlex.fi/en/laki/kaannokset/1999/en19990731_20180817.pdf)

3 An unofficial English translation of the Local Government Act (410/2015) is available at <https://www.finlex.fi/fi/laki/kaannokset/2015/en20150410.pdf>

4 An unofficial English translation of the Finnish Bankruptcy Act (120/2004) is available at <https://www.finlex.fi/en/laki/kaannokset/2004/en20040120.pdf>

5 The Act on Local Authority Boundaries (1698/2009) in Finnish is available at <https://www.finlex.fi/fi/laki/ajantasa/2009/20091698>, unfortunately there is no English translation available

6 The Act on Discretionary Government Transfers (688/2001) in Finnish is available at <https://www.finlex.fi/fi/laki/ajantasa/2001/20010688>, unfortunately there is no English translation available