

Task 4.2: Demonstration project(s): Capacity building in Using Public Funds to Leverage Private Financing of Water and Environmental Infrastructure Investments

Objective

To encourage using public funds to leverage commercial debt financing of water and environmental infrastructure investments.

Background

Some environmental projects are not suitable for debt financing, if they generate mainly economic benefits rather than private financial returns. Some municipal water and environmental infrastructure investment projects, however, may be structured in such a way as to generate sufficient private financial cash flow to sustain debt financing, especially if public funds would cover the social part of the return on investments. If financing against the project revenues (the so-called project financing) is not feasible, such investments can also be financed with general obligation debt instruments, providing that project owners are creditworthy (i.e. can pay the debt from other revenue sources). Until recently, there were virtually no opportunities in EECCA to finance water and environmental infrastructure with local credits in local currencies. Even foreign financial facilities that offered subsidised loans failed to establish solid project portfolios in this sector.

Currently, however, the enabling conditions for commercial financing of certain types of environmental projects are emerging in EECCA. Positive developments can be observed on both the demand and supply side of the environmental credit market in some countries. Better understanding of opportunities and risks will be the outcome of the activity 4.1 of the EAP Task Force Work Program on Environmental Finance. To harness these emerging opportunities public sector would need to strengthen the enabling conditions on the demand side – for example, by increasing the willingness of municipalities and utilities to finance their water and environmental investments with debt instruments. On the supply side, however, the public responsible agencies will also need to develop and implement instruments to facilitate bank lending to this sector and to familiarise commercial financial institutions with the risk profile of water and environmental infrastructure investments.

Activities

- Assure adequate commitment to use public funds to leverage commercial finance;
- Determine the size of the available financial envelope;
- Identify pipelines of environmental projects eligible and suitable for subsidised debt financing;
- Determine financing needs of the pipelines, cash flow and risk profiles, leverage ratios and financial products;
- Facilitate identification and selection of local banks or foreign financial institutions to provide debt financing;
- Provide technical support to structuring transaction between public and commercial financial institutions;
- Establish a project appraisal system for the public institution;
- Establish monitoring and reporting system.

Outputs

- Feasibility analysis of using public funds to leverage debt financing of environmental projects;
- Pipeline of projects co-financed by public funds and banks;
- Templates for co-financing contracts, appraisal and reporting documents.

Benefits/Outcomes

- More financing to environmental projects;
- More efficient use of public funds;
- More sustainable private financing of environmental projects by making banks familiar with their risk profile.