



# **Development of Caribbean Regional Fund for Wastewater Management (CreW)**

## **Critical Financial Barriers for Wastewater Management in the Wider Caribbean**

**Findings by IADB**



## Objectives of IADB Review

- Review the financial situation of eligible water/wastewater agencies & utilities to receive financing
- Identify constraints/challenges in the implementation of sustainable wastewater management initiatives
- Propose solutions that would build upon existing mechanisms
- Provide recommendations on the structure, organization and operation of the Caribbean Regional Fund for Wastewater Management (CReW)



## Challenges to Private Sector Financing of Wastewater Projects/1

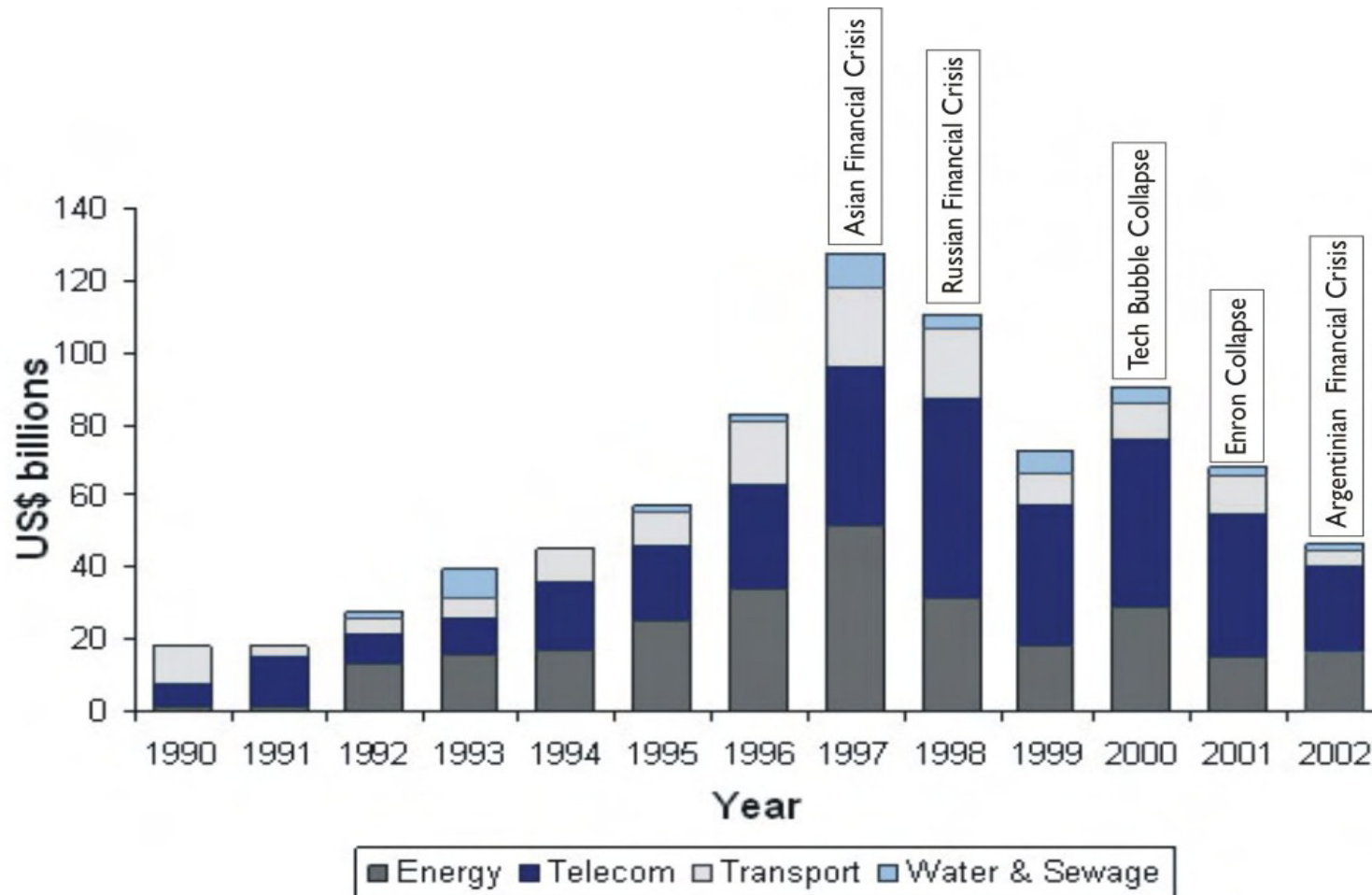
- Difficult sector for attracting private capital, operational skills, & management expertise
- High capital intensity
- Political pressure on tariffs & conviction of water and wastewater services as a “free” good
- Deficient regulations
- Lack of sub-sovereigns access to financing



## Challenges to Private Sector Financing of Wastewater Projects/2

- Poor condition & insufficient knowledge of networks and customer bases
- Currency mismatch between revenues and financing sources
- Local governments & utilities lack the financial capacity or regulatory framework and governance to act as credible financial partners
- Low level of risk mitigation instruments

# Private Sector Investments in Infrastructure 1990-2002

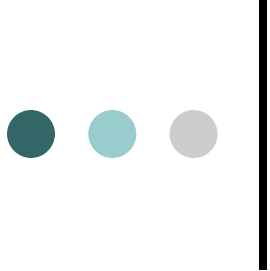




## Characteristics of Water Service and Wastewater Management in the Region

### Diverse ownership structures with some sub-regional groupings

- **Caribbean** - primarily island-wide government owned utilities (Jamaica, Saint Lucia, Barbados)
- **Central America**— mixture of municipalities, municipal enterprises (Belize) and one private mixed-capital company (Honduras), along with some national governmental entities that provide services
- **Mexico (Yucatán)** – State-owned public entity, with one water and sewerage concession (Cancún)
- **South America** – local and regional governments and private companies (Colombia)



## Source of Funding for Water and Wastewater Projects

- **Caribbean** – primarily annual grants to utilities from the central government although some borrowing and in one case (Grenada) financing from the national social security fund
- **Central America** – grants and loans from central government to local water providers
- **Mexico** – grants from Federal Government to state provider along with private investment from concessionaire (in Cancún)
- **South America** – Private sector financing thorough PPPs and public sector financing (e.g., in Colombia from FINDETER, a national government lending agency)



## Wastewater Managements Projects in the Wider Caribbean

- Varies greatly among countries & utilities in the region
- Many utilities have completed feasibility studies, cost benefit analysis, and preliminary design work for pending projects
- Some have developed long-term capital plans but not specific project preparation
- Virtually all projects would benefit from technical assistance to reach financing stage
- **Greatest value proposition for technical assistance is financial structuring and design for projects**





## Other Characteristics

- Utilities & countries engage in opportunistic capital planning based on availability of donor or government funds – projects based on eligibility for donor assistance or local political pressure - not on best value for dollar
- Wastewater treatment is last priority of water utilities
  - 1<sup>st</sup> is water supply – political advantages
  - 2<sup>nd</sup> is covered sewage systems - health concerns
  - 3<sup>rd</sup> is sewage treatment – with higher maintenance costs
- Therefore need to develop financial programs that level the playing field between wastewater & other water related projects



# Sources of Revenue

- Revenue flows from port or tourism taxes or charges offer a potentially important – and appropriate – resource to support the debt financing of wastewater collection and treatment facilities on the Caribbean coast.



## Design of a Financing Facility in this Context Will Be Difficult

- Facility would have to be flexible in operations to be applicable to all potential borrowers
- Difficult to design financing facility without real projects
- Input from stakeholders will be limited – a wait and see approach
- The best use of GEF resources will become more apparent if applied to specific projects
- Financial engineering focused on real transactions will result in best use of GEF funding



## Suggested Approach

- Select pilot projects in the region and deploy GEF resources within specific project financial structures to help stimulate wastewater project implementation
- Let these projects serve as models for other utilities/local governments in the region
- GEF resources would be deployed in a sustainable/revolving manner – not one time grants
- Nature of GEF support will be based on specifics of particular projects. Allows the design of the follow-on financial facility to be based on practical realities in the region
- Combine GEF funds with low-cost IDB financing, Aquafund resources, U.N. Habitat grants, and others



## Selection of Potential Pilot Projects

- Based on information gathered in the preliminary diagnostic stage of this initiative
- In countries willing to sign GEF “endorsement letters”
- In countries which have signed or moving toward signing the LBS protocol
- In countries where utilities or service providers have projects in the final stages of design and are seeking financing
- In countries where GEF funds would serve as a stimulus for project implementation
- In countries willing to consider a IDB sovereign loan in combination with GEF financial program
- In situations where GEF funds could leverage other sources of financing from the IDB or others to expand sewerage collection and treatment

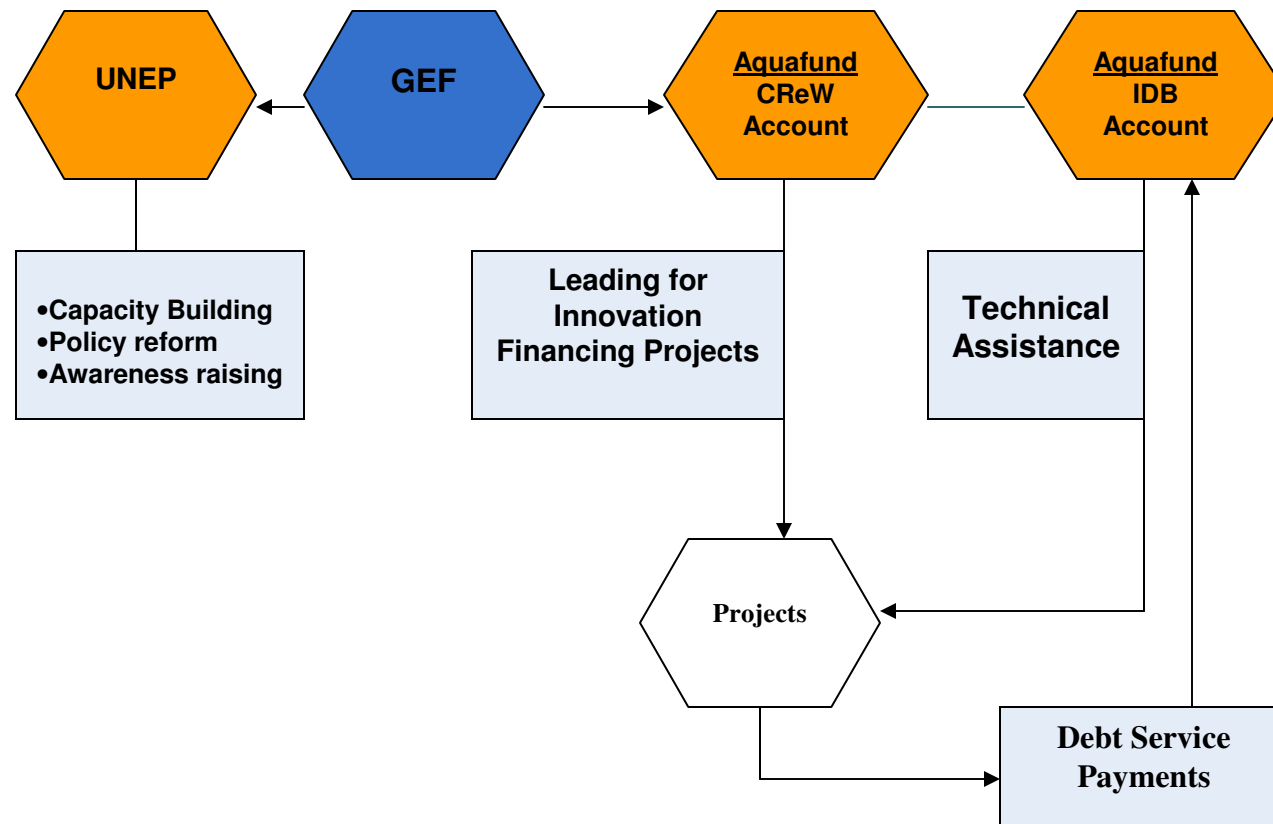


## Potential Project Candidates

\$USD

- **Trinidad & Tobago**- \$ 2 million housing development pilot projects
- **Barbados** – \$ 2 million line of credit for housing developments
- **Grenada** - \$1.5 million sewerage treatment plant as part of \$10 million expanded collection system. Project sponsor has approached social security administration and local banks. Costs of financing between 8-11% p.a.
- **Jamaica** – \$1.1 million for two sewerage treatment plants
- **Belize**- \$5 million Placencia Peninsula project combined with grant funding
- Lease financing company (\$3-5 million) for small-scale and module wastewater technology provides
- **Others?** – Guyana, Saint Lucia, Bahamas,

# CReW Flow of Funds





## Next Steps for IADB

- Select Pilot projects that meet established criteria
- Engage project sponsors in detailed discussions of how GEF may best be deployed to stimulate wastewater treatment facility implementation
- Prepare projects for financing
- Design Mechanism for CreW





## Pilot Project Preparation

- Complete all feasibility studies & independent technical analysis
- Complete financial, cost benefit, & affordability analyses
- Structure financial transaction
- Prepare all legal documents, obtain all government approvals, select technology providers



## CReW Administrative & Operational Protocols

- Establish accounting and reporting systems
- Select management
- Establish eligibility requirements and general underwriting criteria
- Establish project approval procedures



**THANK YOU!**