15th Global Water Alliance Conference

U.S. Government Sponsored Water Funding Models: Can they serve 2030 UN Sanitation Service Goals?

Perry World House

University of Pennsylvania

Jim Gebhardt, U.S. EPA

October 6, 2022

The State Revolving Fund Model: Value and Design

Its Value in Supporting National Clean and Safe Drinking Water Goals

- Funding secures Triple-A Market Access for States and Below Market Rate Financing for Local governments and other qualified borrowers
- Financial benefits provide a powerful inducement for local officials to secure SRF assistance to build prioritized projects

SRF Program - Overall Model Design

- Federal Government annually capitalizes *state* administered clean water and drinking water revolving funds subject to:
  - States contribute a minimum 20% matching share (there are special appropriation exceptions)
- Funds are used to provide financial assistance including from the proceeds of bonds ("leverage") secured by the federal and state contributions

Water Infrastructure Finance and Innovation Act(“WIFIA”)

- Innovative financing mechanism for water infrastructure
  - Enacted June 2014
  - Created a federal credit program managed by EPA
  - Up to 35-year loan terms, offered at U.S. Treasury rate with structuring flexibility
- Intended to address:
  - Significant water infrastructure needs
  - Perceived gap in availability of SRF financing for large projects
- Modeled on the Transportation Infrastructure Finance and Innovation Act (TIFIA) program
- Appropriated funds are used as reserve to leverage federal funding for financing projects
  - WIFIA relies on Treasury for loan capital
  - Allows EPA to loan up to 100x loss appropriations with approval of OMB

$1 IN APPROPRIATED FUNDS

$100 IN LOANS

$204 IN INFRASTRUCTURE INVESTMENT

What can the SRF Model offer to meet 2030 UN Sanitation Investment Goals?

- The SRF model offers developing countries a means for establishing highly rated financing mechanisms that can create market access, lower financing costs, support blended finance strategies and expand the scope of viable projects that can be financed on affordable terms.

- World Bank case studies document numerous projects that have been funded in this manner, including India, the Philippines and Kenya

- Key factor in applying the SRF model is securing multi-year funding commitments from development banks, NGOs and sponsoring national governments

- Capacity challenges

What can the WIFIA Model offer to meet 2030 UN Sanitation Investment Goals?

- Potential value for sovereign to leverage and co-fund alongside private investment and create sustainable markets that are far less reliant on equity capital needed for viable SRF-like models.

- Lend in local currency against loss reserve at a *reasonable* risk-to-capital ratio that does not dilute country credit ratings.

- Potential sources of underlying credit reserves include U.S. and international foundations; private and international equity firms. Target countries could be incentivized to appropriate matching capital.

- The model could offer participating private capital investors senior or parity credit protection against infrastructure revenue streams.

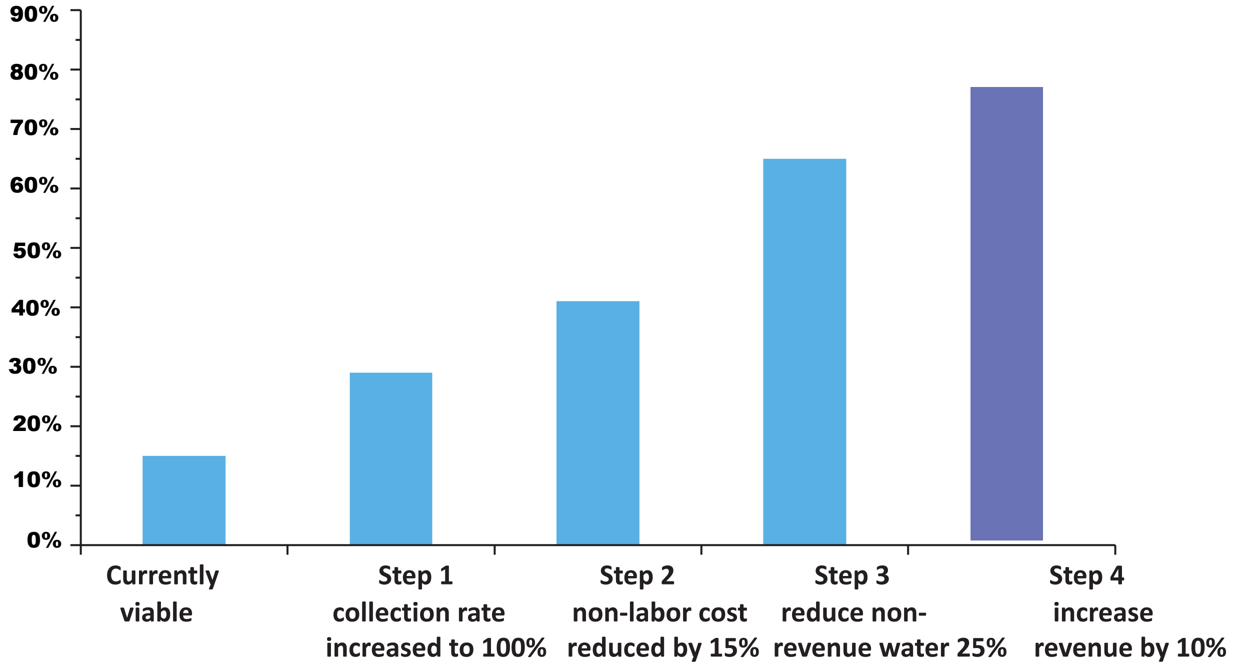
- Pensions, private, foundation and other investors could make ideal investment partners, as some of their own liabilities match well with infrastructure asset useful life.

SRF/WIFIA Model Implementation Challenges

Developing Country Institutional Capacity is Lacking

- Legal frameworks (legal authority, governance, judicial, investor protections)
- Lax or non-existent environmental laws that limit government demand for infrastructure investment
- Lack of available local financing with terms that match useful life of the long-term infrastructure projects offered by banks or markets.
    - Most investors prefer liquid securities federal government (sovereign) securities which offer attractive rates crowding out infrastructure; or
    - foreign investments that offer stable returns with favorable currency exposures (i.e., that hedge local weak currencies).
- Lack of financially viable loan recipients and steady project pipelines.

Developing Country Utility Operating Efficiency & Impacts on Financial Viability (Steps needed to attain creditworthiness)



Source: IBNET database, accessed 2016. Database.ib-net.org.

Contact Information

gebhardt.jim@epa.gov
(202) 734-1607 (m)

SRF and WIFIA Program Websites:

https://www.epa.gov/cwsrf

https://www.epa.gov/dwsrf

https://www.epa.gov/wifia