Globalfields

Funding Opportunities Bankable Projects

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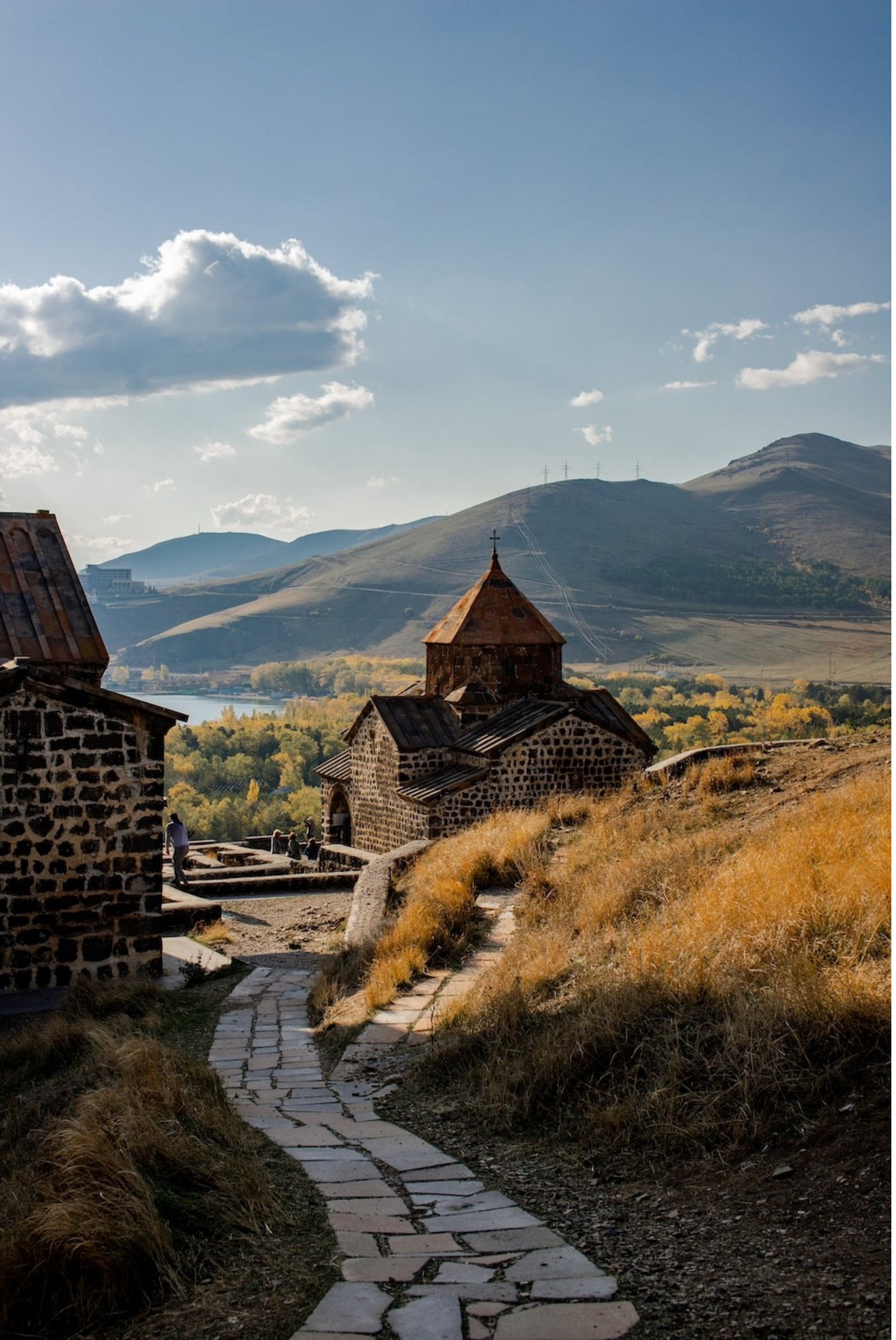
Agenda

- Part 1: State Budget Allocated to Municipalities
- Part 2: National Funds for Climate Projects
- Part 3: Municipal Bonds/Debt Markets
- Part 4: International Funding Sources



Presentation Overview

- Funding is crucial for the implementation of local projects.
- Local actors such as municipalities however often face challenges in accessing finance
- For example, funding through development partners requires high internal capacity requirements, the ability to handle debt, and imposes time constraints for processing.
- This presentation will explore different funding routes and sources that municipalities can consider to finance their projects effectively.
- By leveraging these funding opportunities, municipalities can accelerate their development and contribute to the well-being of their communities.
- Funding routes include:
  - State budget
  - National funds
  - Municipal budgets/debt
  - Multilateral sources

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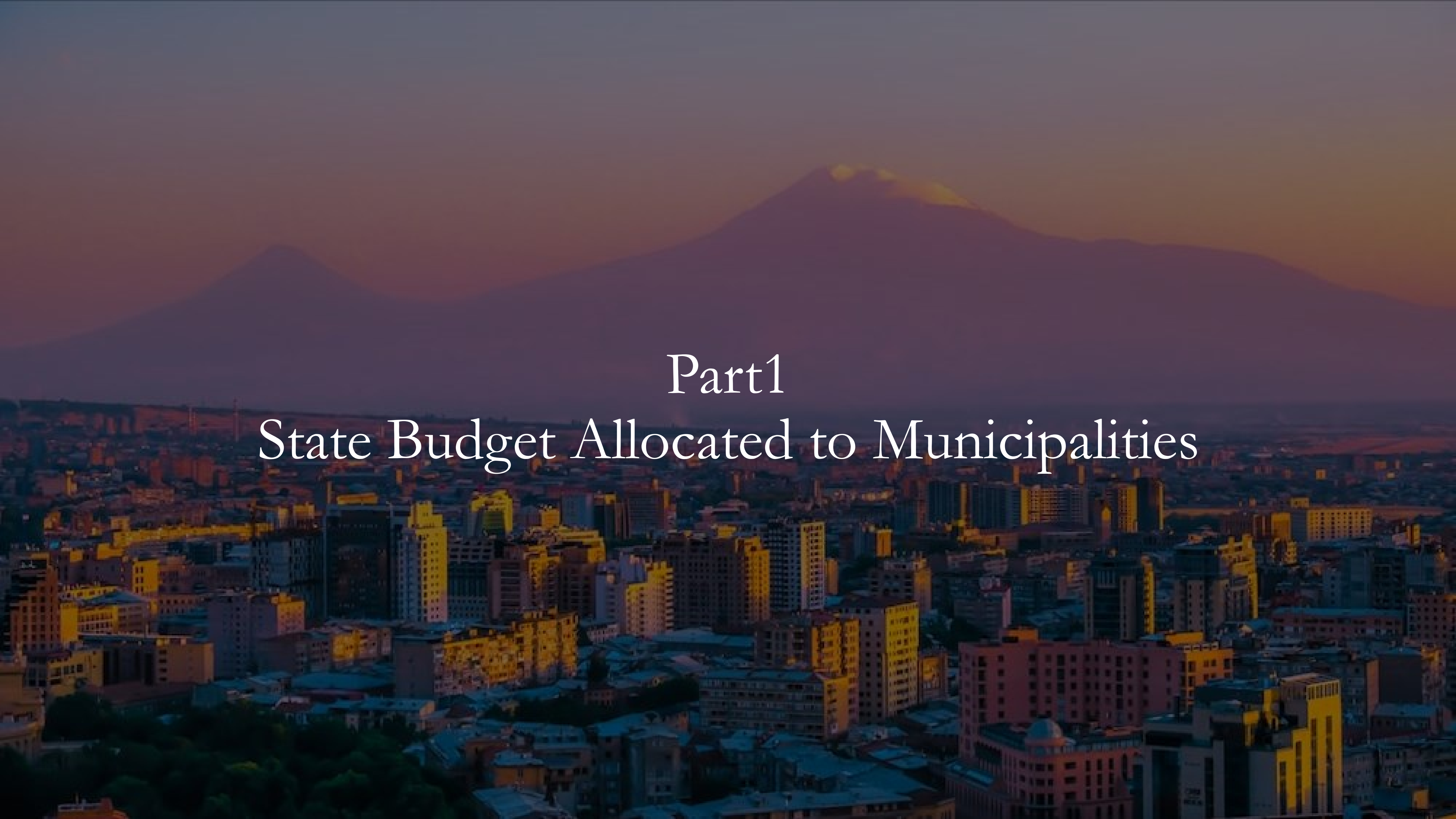
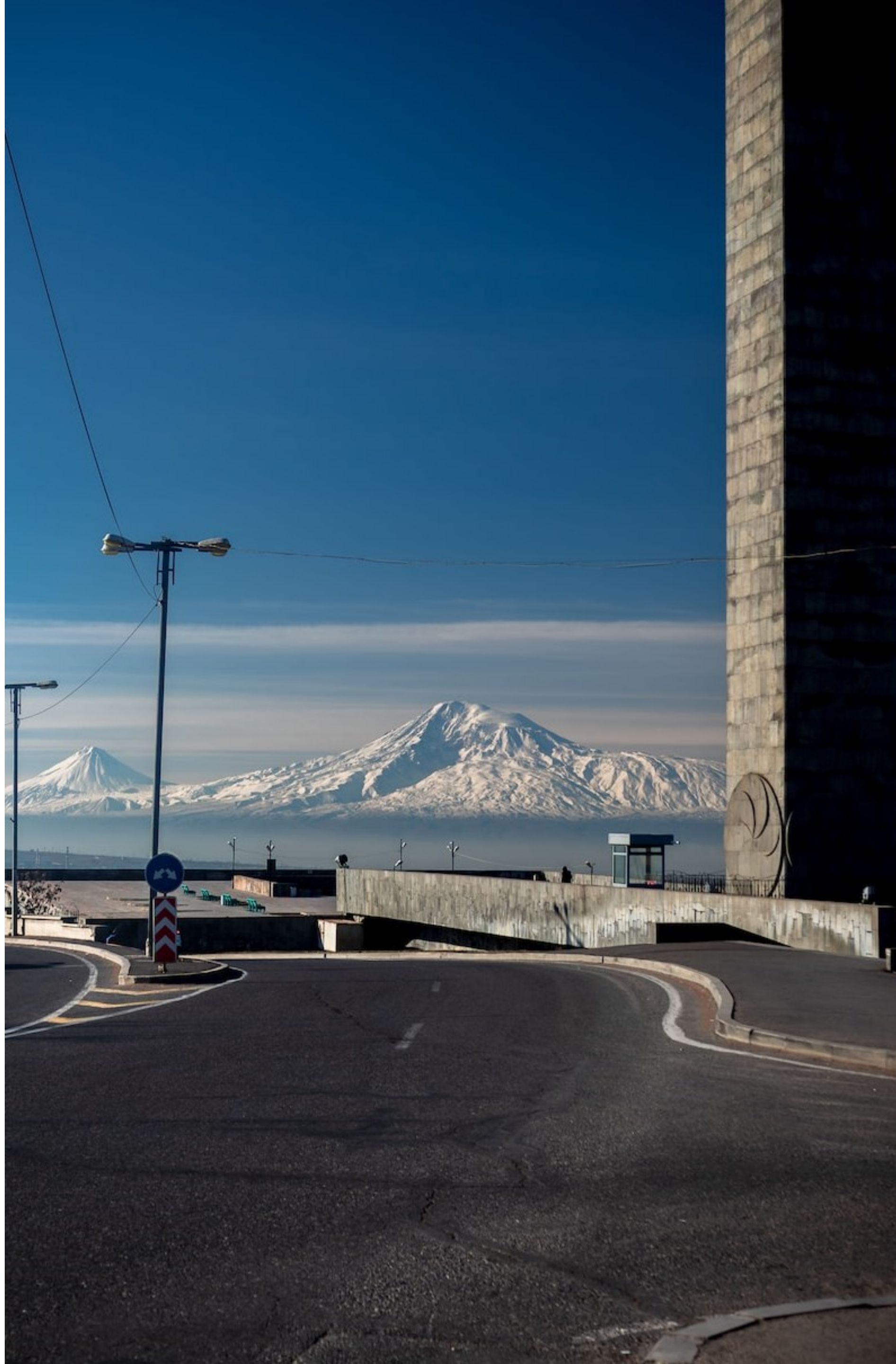
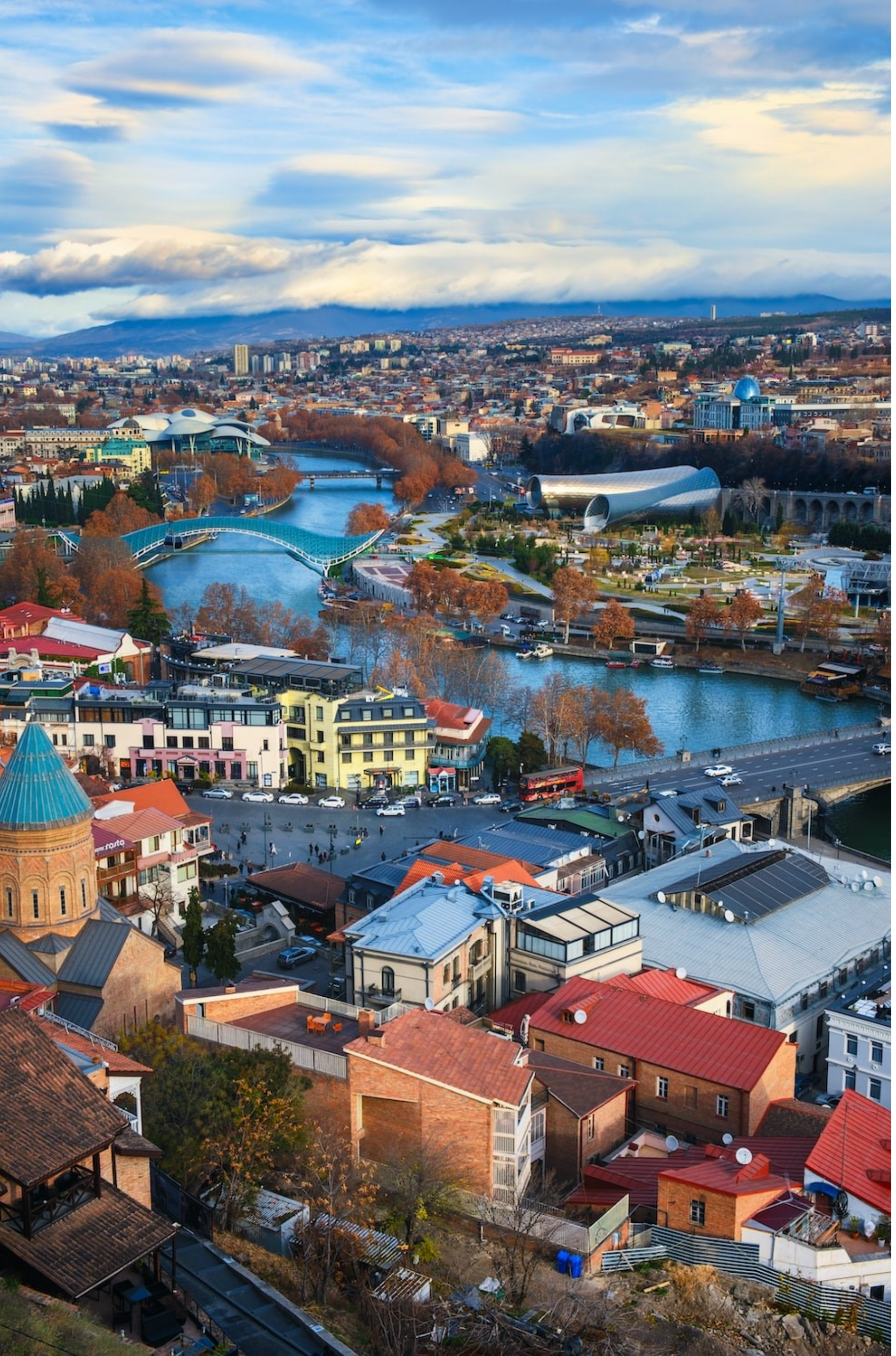


Part1
State Budget Allocated to Municipalities

Green Bonds

- Green Bonds are an attractive route for investments in climate projects, as they require the issuer to invest in projects aligned with Green Bond frameworks, such as water projects or clean urban transport.
- Green Bonds issued by central government offer a lower financing cost compared to municipal bonds due to the higher credit rating of the central government.
- Green Bonds provide flexibility to the issuing authority in terms of project selection, as long as they comply with the relevant Green Bond Framework.
- This allows the municipality to retain control over the project, offering greater autonomy compared to projects financed through Development Finance Institution (DFI) loans.
- While there are currently no examples of sovereign or municipal Green Bonds in the Eastern Partnership (EaP) region, the Republic of Serbia recently issued an allocation and impact report for its Green Bond, demonstrating the potential for local sector financing.





DFI Finance through Government

These facilities are regularly used by development finance institutions, including the EBRD, EIB, Council of Europe Bank, or the World Bank. A good example of this is the World Bank's 2nd Urban Infrastructure Project in Ukraine, or EIB's public buildings project in Ukraine as well.

In particular for smaller authorities that cannot issue debt in their own right and who are constrained in terms of their budget, this may be one of the routes to access to finance with the most potential.

- Large-scale finance facilities at central government level enable access to development finance quickly and efficiently.
- They are usually centrally managed, and municipalities need to demonstrate that:
    - i) The project they seek finance for is aligned with the objectives of the facility;
    - ii) They have the capacity to implement the project; and
    - iii) They have the financial capacity to repay loans.

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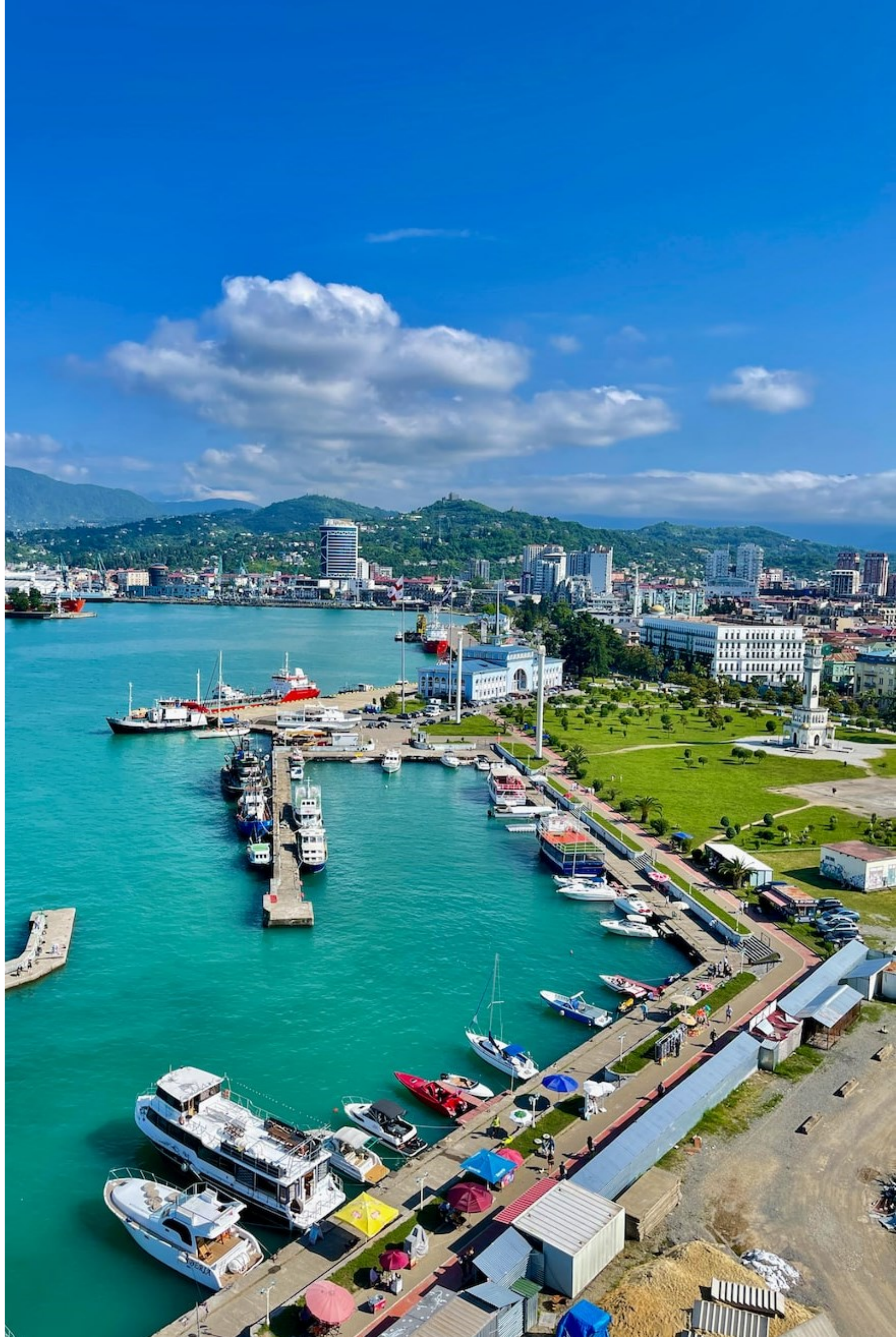
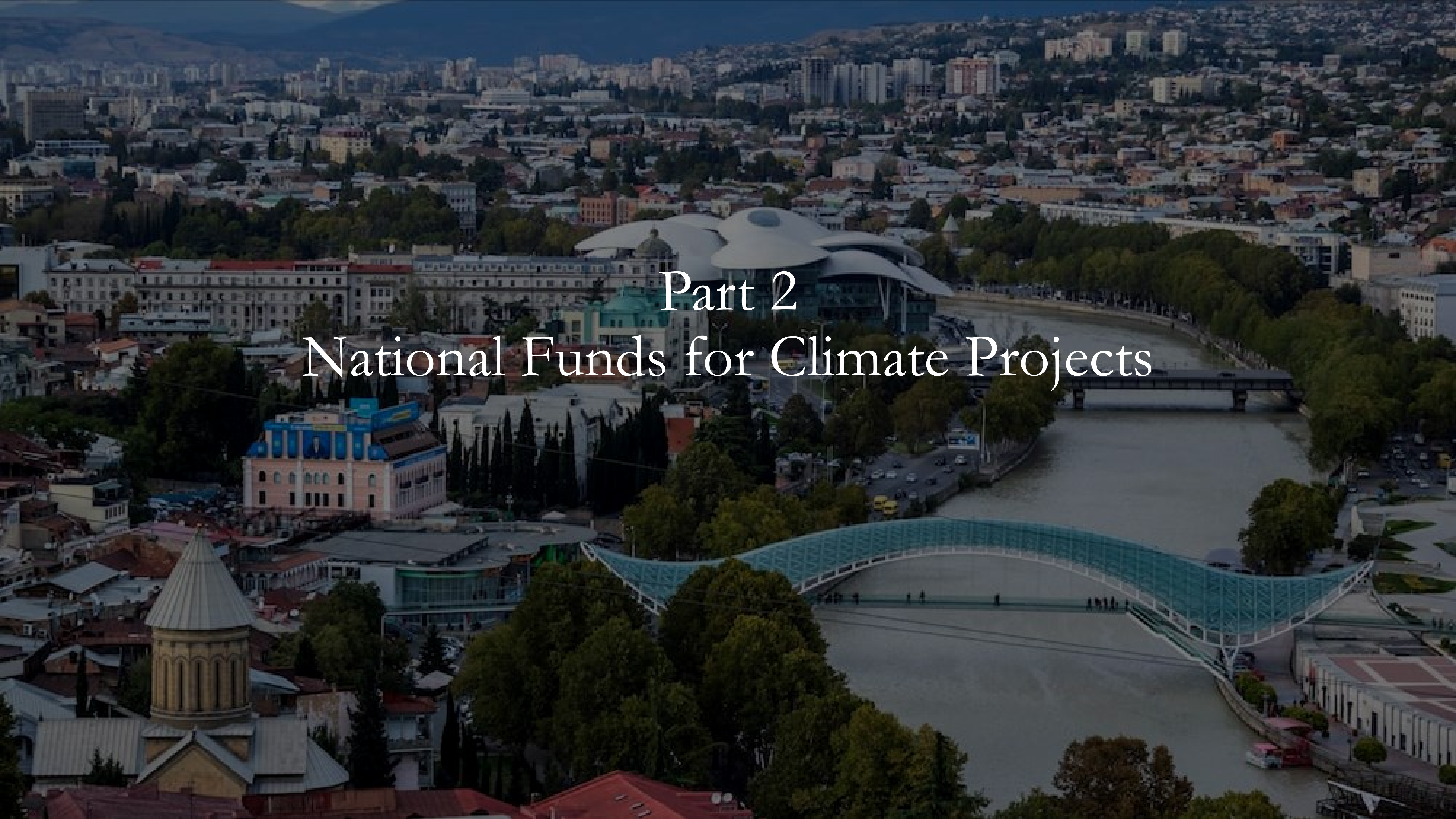
Other channels

It is important to explore other avenues and establish agreements and partnerships to secure additional financing for municipal projects where this is possible. In particular smaller climate projects may find funding through other channels, instead of or in addition to external sources:

- Budgetary resources can be utilized for investment in local projects. Where possible, agreement might be reached with the central government to e.g. allocate budgetary savings resulting from energy efficiency investments to repay the investment.
- Investments can also be financed through user charges, tariffs, taxes, and levies on property developers, although substantial sums from these are unlikely in Eastern Partnership countries.





Part 2
National Funds for Climate Projects

National Fund

- Some Eastern Partnership (EaP) countries have established national funds with specific mandates related to climate and environment.
- Examples include Moldova's Environmental Fund focusing on environmental and climate projects, or Armenia’s R2E2 Fund.
- These funds are often financed through central tax income, environmental fine payments, and donor or DFI finance.
- They are designed to support projects within their mandated areas, such as improvements in environment, climate, and sustainability.
- Municipalities should explore these national funds as potential sources of financing for their climate-related initiatives

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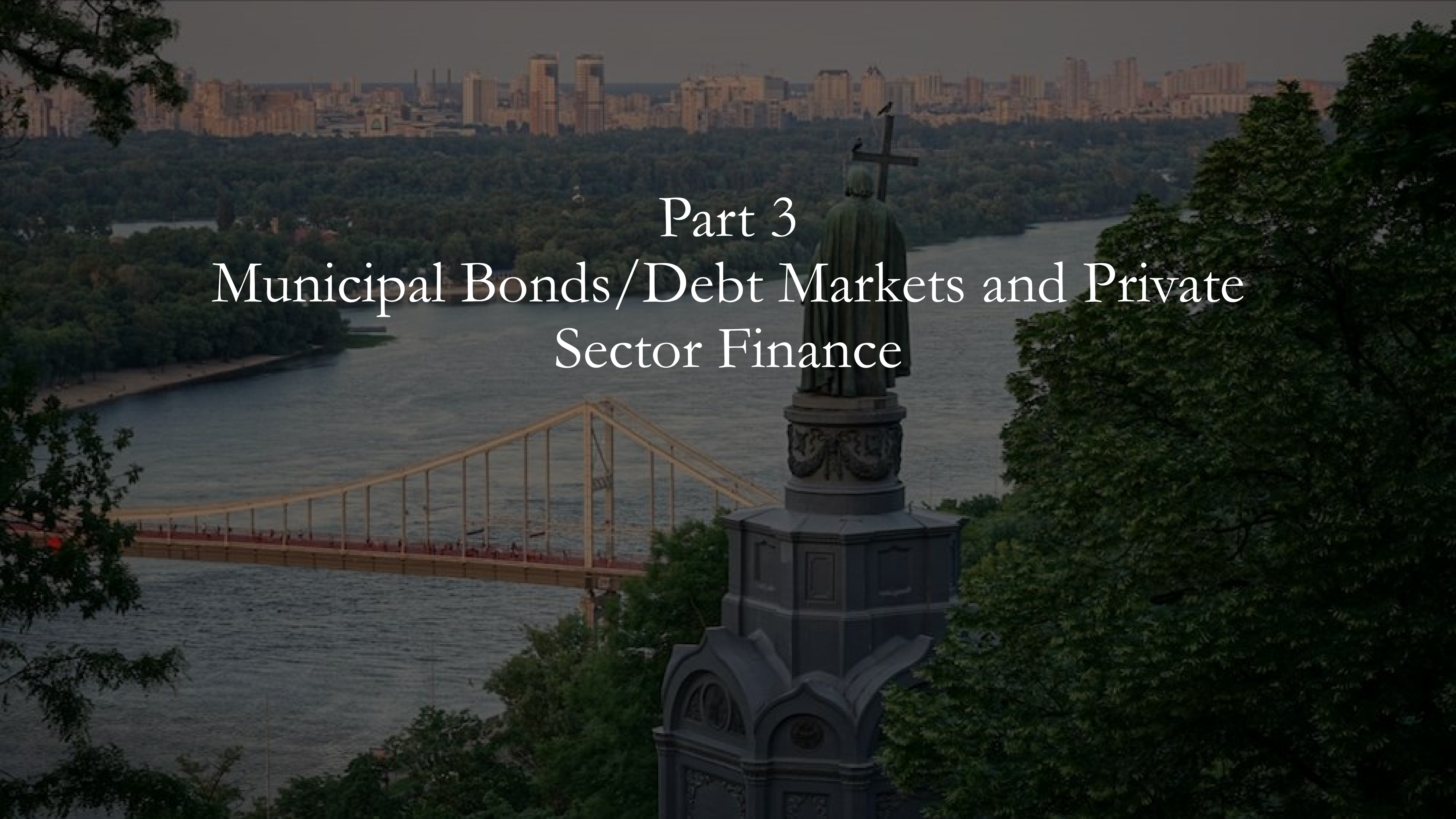
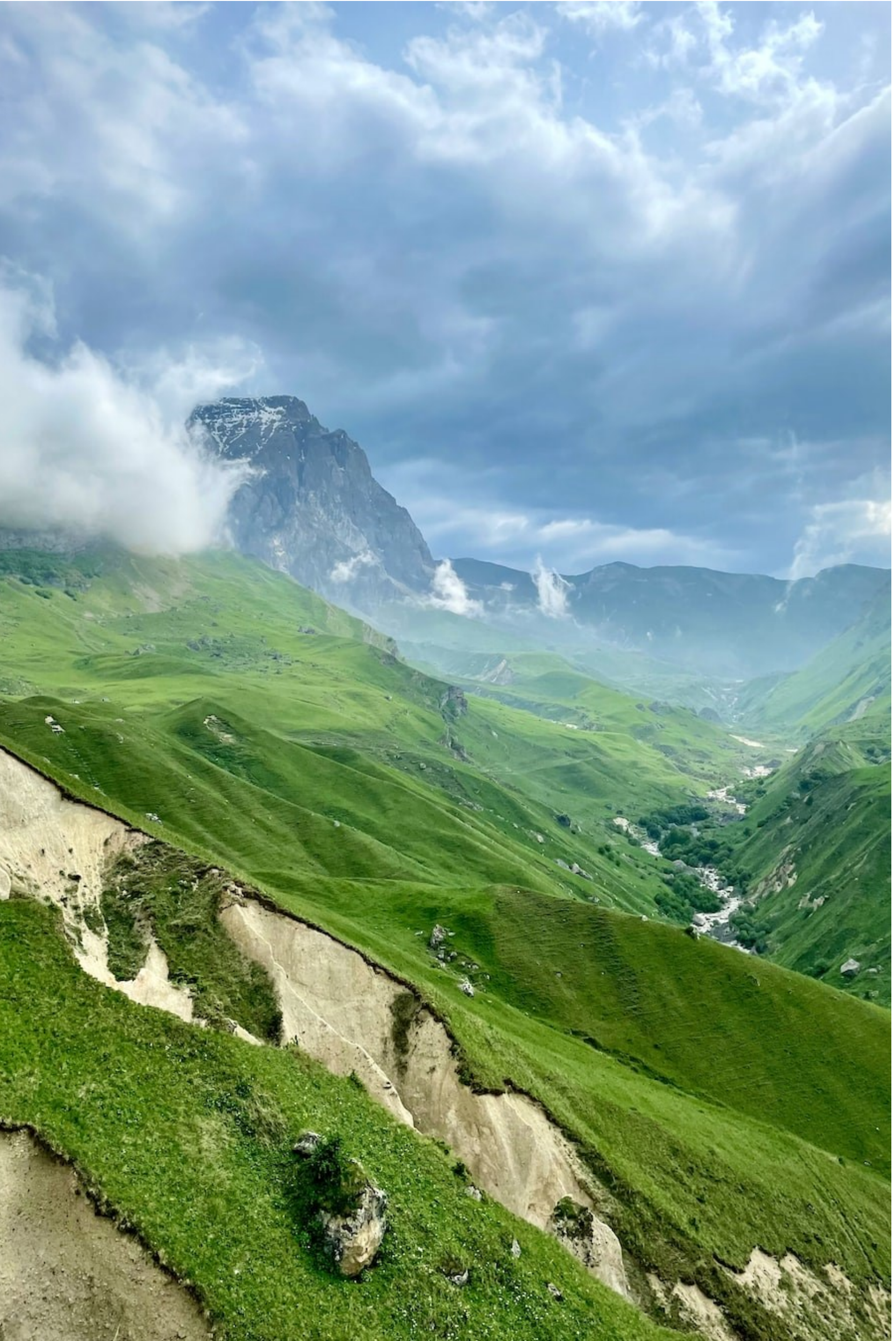


Part 3
Municipal Bonds/Debt Markets and Private Sector Finance

Municipal Bonds/Debt Markets - Credit Rating and Safeguards

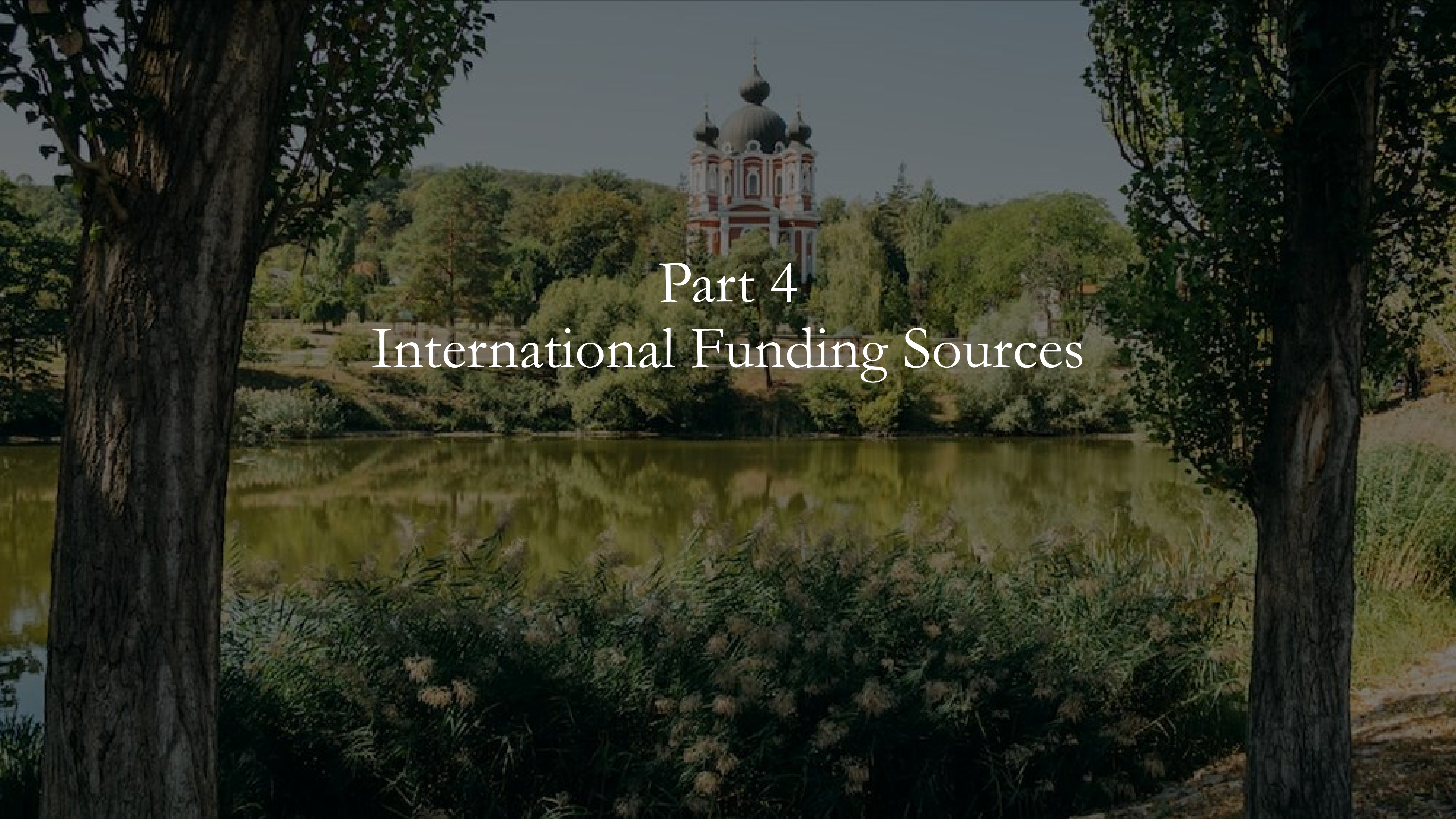
- Larger municipalities with a favourable credit rating can access debt markets or DFI loans based on their creditworthiness.
- They may have the option to issue bonds, including green bonds, or take on debt directly for the municipal budget.
- Special-purpose vehicles (SPVs) or municipally-owned companies can also be utilized for funding specific projects like solar energy or public services, and these may eventually be able to access debt markets directly, without the need to rely on their owner.
- Green bonds require additional safeguards, including the need for a Green Bond Framework and regular allocation and impact reports.
- Proper legal advice should be sought during bond issuance considerations and debt agreement negotiations to ensure compliance and protect municipal interests.



Mobilising Private Sector Financing

- Municipal bonds and debt markets offer opportunities to mobilize private sector financing for municipal projects.
- Bonds and debt instruments backed by regular revenue streams and/or the city budget attract private sector investors.
- To issue bonds, municipalities need a credit rating enabling them to borrow based on financial soundness, credit history, and revenue streams.
- Access to national and international debt markets allows municipalities to tap into institutional investor funding.
- Debt agreements involve assessments by lenders and may require additional securities or pledging of assets for collateral.
- Municipalities should carefully negotiate debt covenants and seek competent legal advice to protect their interests in these financing arrangements.

Part 4
International Funding Sources



Multilateral Finance for Local Projects

- Development Finance Institutions (DFIs) and Multilateral Development Banks (MDBs) provide accessible funding options for municipalities through their programmes.
- Advantages of DFI/MDB Finance:
    - Specialized teams familiar with investing in sub-sovereign operations and prioritize projects with high development, environmental, and climate impacts.
    - Robust due diligence to manage risks and ensure impactful outcomes.
    - Access to technical assistance and grants from donor funds, utilizing their established funding arrangements.
- Disadvantages
    - Project development and preparation may take longer and be more complex compared to general budget loans;
    - Higher performance and impact requirements on projects than private sector

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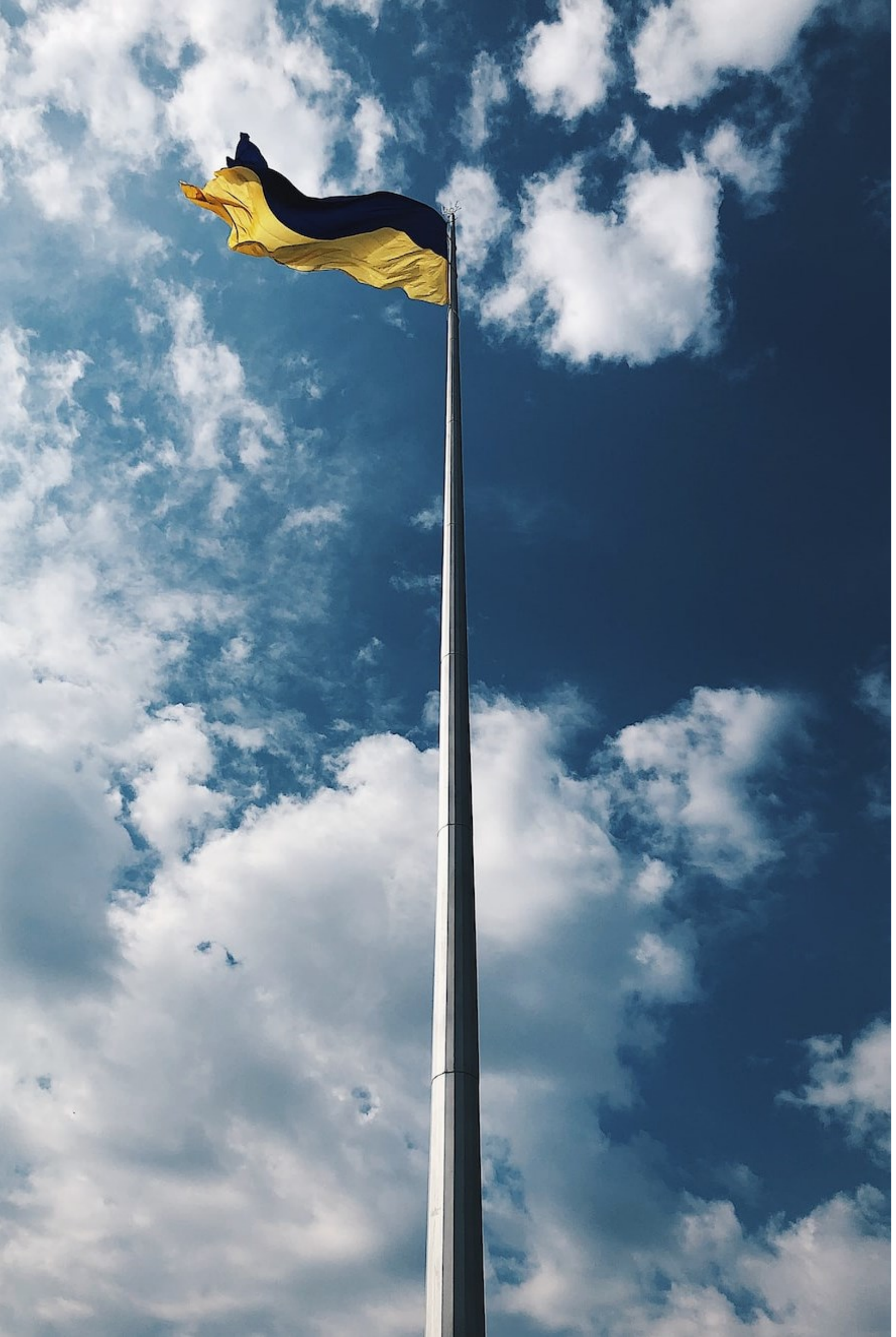

Climate Funds

- Climate funds provide additional opportunities for municipalities to access international financing for climate-related projects.
- Access to these funds is typically through entities accredited by the funds, including DFIs/MDBs, the UN system, and Direct Access Entities based in the country.
- Not all Eastern Partnership (EaP) countries are eligible for all climate funds.
- Key climate funds include the Adaptation Fund (AF), Climate Investment Funds (CIFs), Eastern Europe Energy Efficiency and Environment Partnership (E5P), Global Environment Facility (GEF), and Green Climate Fund (GCF).
- Municipalities should explore the eligibility criteria and requirements of these funds to determine if they can support local investments in their respective countries.

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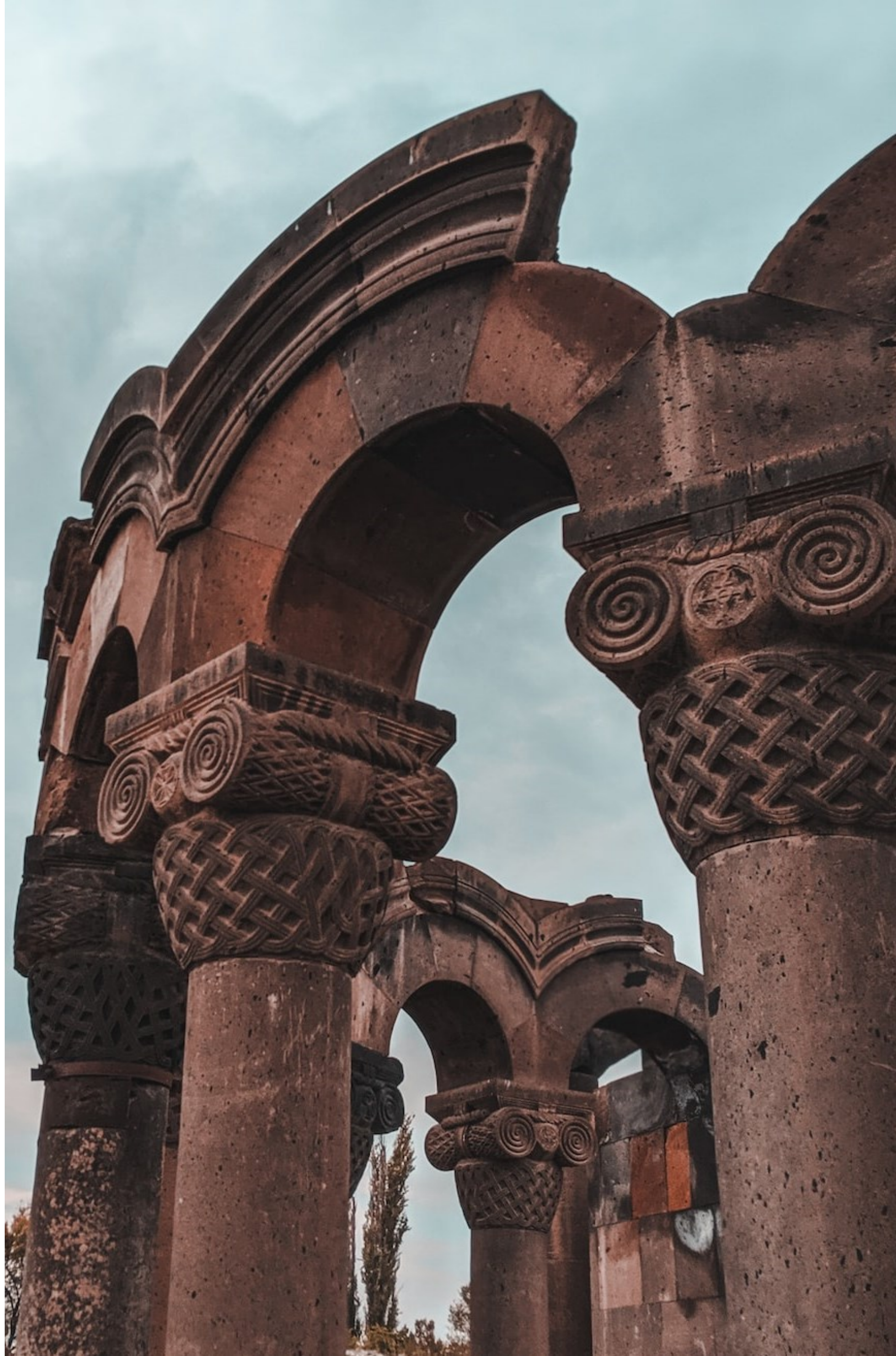
Country Eligibility for Climate Funds

Fund/Country	Adaptation Fund	Climate Investment Funds	E5P	Global Environment Facility	Green Climate Fund
Armenia	o	o	o	o	o
Azerbaijan	o	x	o	o	o
Belarus	x	x	o	o	x
Georgia	o	x	o	o	o
Moldova	o	x	o	o	o
Ukraine	x	o	o	o	x

Others

- Besides DFIs/MDBs and climate funds, there are other international funding sources that municipalities can explore.
- While these funding sources may be smaller in scale, they can address specific challenges and support targeted initiatives.
- Municipalities should actively seek information and partnerships to tap into these international funding sources, aligning their projects with the objectives and criteria of the respective funders.
    - Bilateral funding from foreign governments and
    - Philanthropic funding may be accessible for local projects.
- Bilateral funding for larger projects is however often routed through DFIs/MDBs, while philanthropic funding may be channelled through local Civil Society Organizations (CSOs).

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