



A Collection of Primary Tools



Municipal Finance

Tool MF 2

Green investment financing plan

What this tool does:

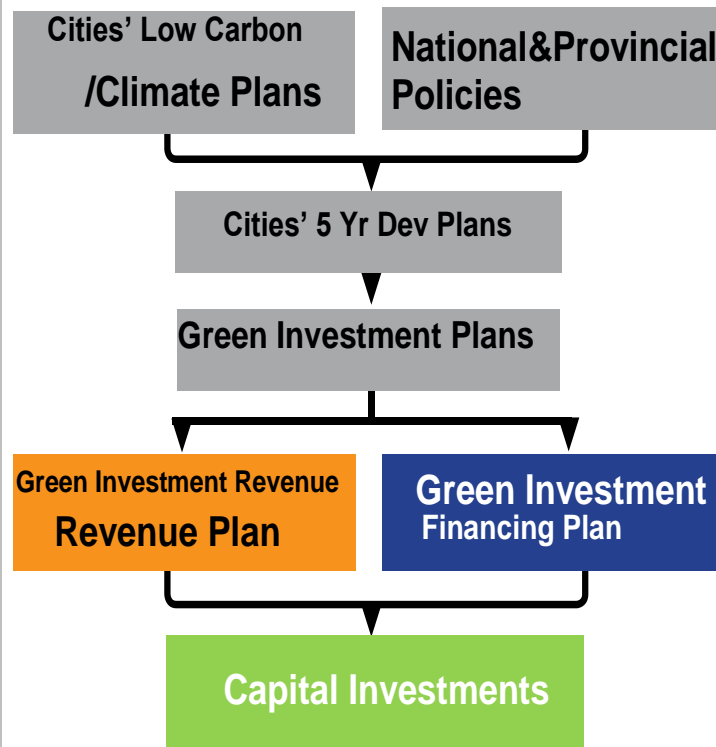
A green investment financing plan (GIFP) provides a systematic approach to deciding on the most appropriate financing structure for the city's green investments. In the context of the investment plans of the city, utility or service unit, and the context of the available funding and the local capital markets, the tool will generate a financing plan for the investment pipeline. The capital markets provide finance (equity and debt) for periods of over one year – all largescale projects will need access to such finance. This will provide the basis of a clear strategy to be carried out by the finance unit of the entity concerned. The responsibilities for its implementation should also be clearly defined. Some financing sources will require specific legal structures and these both need to be costed into the project and to be established in a timely fashion. The main revenue sources for funding, potentially including taxes, service charges and fees, need to be assured ("ringfenced" in the case of PPPs) so as to repay financing over time.

How does this tool work?

The tool is structured by the main steps required to prepare a GIFP:

- Step One sets out the key information to be assembled by the unit coordinating the GIFP, in particular: the estimated project costs, broken down by major component; the sectoral priority of the project (derived from a structured project prioritisation exercise); documents potential financing sources and funding context (see Tool MF 1) including the flow of grant finance.
- Step Two is a structured analysis of all projects and their main components to determine which projects and/or components could recover their costs from user charges or other means and could thus be implemented/ financed by the private sector.
- Step Three classifies and prioritises projects by investment size into those that are a) small and urgent and thus must use current revenue, and b) those that are large or that are small but less urgent and can be "bundled" into larger investment packages - these will need to be at least partially financed.
- Step Four is a "market sounding" relating to a) the likelihood of attracting private investors and/or finance to those projects identified for private sector implementation and b) the cost and timing of potential private and public financing (international – including all costs – and national) of non-private investments.
- Step Five plots needed financing for prioritised projects (net of small urgent projects) and potential tied external grants, among projects according to their economic IRR and urgency (Step 3) over the investment period.
- Step Six allocates recurrent revenue surplus (net of small urgent projects) and potential tied external grants, among projects according to their economic IRR and urgency using a GAM approach – the GIFP.
- Step Seven describes the process of establishing the legal and other structures required to implement the plan – and for monitoring the performance of financing, evaluating its effectiveness and reallocating resources as circumstances change (on a quarterly basis).

How is the GIFP linked to strategic objectives?



Further information:

Municipal Finance – EC-Link Position Paper. http://eclink.org/media/filer_public/fe/2c/fe2cd19a-764e-41f4-a54b-66d7e563f24a/8mfml-fs-yz-final.pdf