

Roundtable on Financing Water

The Roundtable on Financing Water

4th meeting, 26-27 June 2019, Washington, D.C.

Session 2. Blended finance: Jamaica credit enhancement facility

BACKGROUND PAPER

Draft

1. Caribbean Regional Fund for Wastewater Management (CREW) - The Credit Enhancement Facility in Jamaica – Blended Finance example

1.1. The CReW

The Global Environment Facility (GEF) funded the Caribbean Regional Fund for Wastewater Management (CReW)¹, a non-reimbursable facility up to US\$20 million, that began in 2011. Implemented by the Inter-American Development Bank (IDB) and the United Nations Environment Programme (UNEP), the CReW is an integrated and innovative approach to reducing the negative environmental and human health impacts of untreated wastewater discharges, conceived as a pilot program that could be replicated under a larger facility through additional capitalization under GEF and/or from other resources. One of the main innovations of the CReW is the implementation of Pilot Financing Mechanisms through a revolving fund scheme² that provide subsidized financial terms or credit enhancement facilities for eligible wastewater treatment projects,

At the regional level, it has catalyzed a unique partnership between the IDB, UNEP and the Secretariat for the Cartagena Convention³. At the country level, project implementation is further supported by partnerships between water & wastewater utilities, Ministries of Environment, Finance, Health, Education, and local communities.

The GEF CReW project works with 13 countries⁴ within the Wider Caribbean Region (WCR) to:

- Provide sustainable financing for the wastewater sector
- Support policy and legislative reforms in the wastewater sector
- Foster regional dialogue and knowledge exchange amongst key stakeholders in the WCR

The project includes three main interlinked components:

1. Investment and Sustainable Financing
2. Reforms for Wastewater Management
3. Communications, Outreach and Training

1.2. The Caribbean Wastewater Challenge

Effective management of wastewater in the Wider Caribbean Region (WCR) has long been a significant challenge faced by all the countries. Governments recognize that land-based sources of pollution from municipal, industrial and agricultural sectors and their negative impacts on marine resources are a threat

¹ <https://www.gefcrew.org/>

² Projects are scheduled to generate repayments into the local revolving financial mechanisms.

³ A convention for the Protection and Development of the Marine Environment in the Wider Caribbean Region (WCR) (<http://www.cep.unep.org/cartagena-convention>)

⁴ Antigua & Barbuda, Barbados, Belize, Costa Rica, Guatemala, Guyana, Jamaica, Honduras, Panama, Saint Lucia, Saint Vincent & the Grenadines, Suriname, and Trinidad & Tobago.

to the region's economic development and the quality of life of its people. However, solutions have been elusive.

Studies conducted in last years, showed that untreated sewage was one of the major threats to public health and the Region's rich biodiversity. Rapidly expanding urban populations, poorly planned development, and inadequate or poorly designed and malfunctioning sewage treatment facilities all contributed. It was found that:

- 85% of wastewater entering the Caribbean Sea remained untreated
- 51.5 % of households lacked sewer connections
- Only 17% of households were connected to acceptable collection and treatment systems

The proper collection, treatment, and disposal of wastewater is essential to protecting human health as well as to protect the natural environment. The GEF CReW Project aimed to address the three significant challenges to wastewater management: inadequate policy and legal frameworks, insufficient financing and the low priority placed on waste water treatment.

1.3. Water and Wastewater Services in Jamaica

The National Water Commission (NWC) is a statutory organization charged with the responsibility of providing water and wastewater services island-wide. It serves approximately two million persons with potable water services and 0.5 million with wastewater services (NWC 2015a). NWC operates more than 70 sewage treatment facilities (NWC 2015a). Most of these were constructed in tandem with housing developments and then turned over to NWC. NWC has a network of 500 km of sewerage pipes. Major urban centers such as Kingston and St. Andrew, St. James and St. Catherine account for approximately 90% of the sewage handled by the NWC. The installed treatment capacity of five facilities – the Soapberry, Greater Portmore, Negril, Montego Bay, and Ocho Rios plants – account for almost 70% of the total. All five plants were constructed between 1995 and 2010, demonstrating Jamaica's commitment to investing in the wastewater sector in the past 20 years. During this period, the country received significant amounts of funding for investments in the wastewater sector from governments (e.g. Japan) and development banks (e.g. the European Development Bank, World Bank and IDB). The National Water Commission increased its capital investments in wastewater infrastructure from US\$300,000 in 2004 to US\$6.2 million in 2013. Sanitation services exist in most major urban areas and are being improved. In the Kingston Metropolitan Area (KMA), 92% of households have flush toilets, while in other towns 60% of households have this facility. However, 42.4% of households with flush toilets are not linked to wastewater treatment facilities (sewers), indicating that soil absorption systems are the predominant means of sewage disposal for the country.

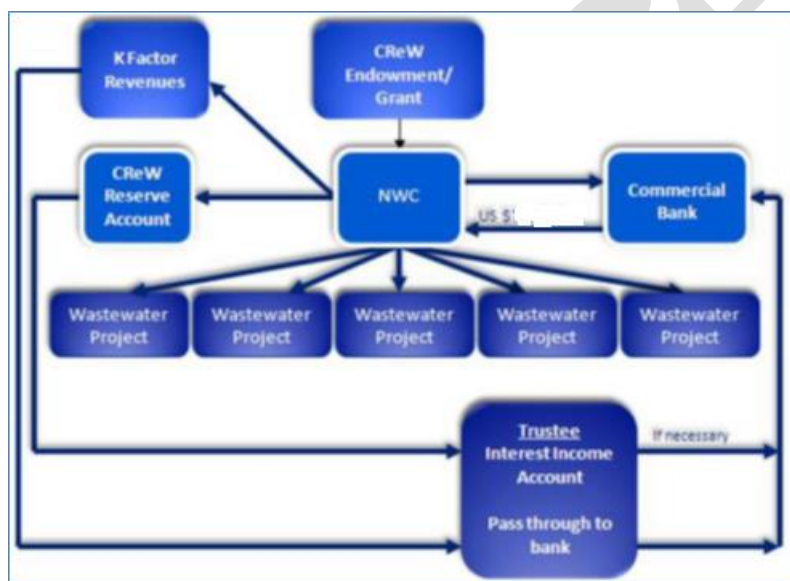
The quality of effluent treatment in Jamaica is mostly poor – a study of the performance of the Jamaican domestic wastewater sector conducted from 2001 to 2003, showed that only 40% of the 60 plants monitored met the national effluent standards⁵. Many of the existing septic systems are located in limestone and not functioning properly and as such only partially treat the raw sewage and grey water. This results in direct environmental impacts that can immediately contaminate any nearby water body such as creeks, rivers, sea and groundwater. However, the Government and service providers have the capacity and the plans to improve the situation through increased compliance with and of monitoring effluent standards.

⁵ UNEP 2014.

1.4. The Jamaica Credit Enhancement Facility under the CReW

The chosen financial model for Jamaica under the CReW project, was a credit enhancement facility to support local commercial bank financing of wastewater projects – to be implemented by the NWC. US\$3 million in CReW funds were provided to the NWC utility as an endowment/grant to be placed in a reserve account and pledged as collateral for commercial bank financing of NWC wastewater projects. The source of payment and collateral for the commercial bank loans would be annual K-factor revenues⁶ from NWC.

Figure 1. Jamaica’s Credit Enhancement Facility



Source: CReW, 2012

NWC established the Jamaica Credit Enhancement Facility (JCEF) as a US\$3 million guaranteed fund under the CReW, placed in a reserve account at the National Commercial Bank (NCB), after receiving the Ministry of Finance’s approval to formalize, in 2012, a loan contract in the sum of US \$12 million, thus expecting a 4:1 leverage of financial resources. These funds are to be used as collateral by local banks to acquire financing to carry out wastewater projects.

While the JCEF was being established, the National Environmental Protection Agency had identified 44 plants waste water treatment plants to be upgraded in order to meet new national effluent standards. Of these, 13 plants were assessed and selected to be rehabilitated or replaced under CReW to meet national compliance standards, which are more stringent than the Land Based Sources of Marine Pollution (LBS) Protocol standards (UNEP 2014). Ultimately, eight plants were part of CReW:

- Rebuilding of wastewater treatment plants in Boscobel, St. Mary; and Elletson Flats in St. Andrew
- Decommissioning of facilities at Arcadia, Bay Farm Villas and Hughenden in St. Andrew, will be decommissioned and connection to the central sewer system
- Rehabilitation of wastewater systems in De la Vega City, St. Catherine; Blackwood Gardens, Kingston; and Lionel Town, Clarendon

⁶ Specific charge on customer bills to cover part of the CAPEX program of the company

The JCEF is being used to fund all the required works and services necessary to implement these eight projects. The project will facilitate improved wastewater treatment and will allow the NWC to expand its sewer network, especially in Kingston.

The first wastewater projects to benefit from establishment of the JCEF – to replace and upgrade the Boscobel and Elletson Flats Sewage Treatment Plants – have begun. The official signing of the contract – worth US\$4.2 million – took place in early October 2015. At the end of August 2016, the overall design phase of project was 100% complete. The overall civil works construction was estimated at 80% complete where the Boscobel and Elletson Flats WWTPs sites were 85 % and 75 % complete respectively.

The CReW has helped in consolidating the corporatization process of NWC. Thus, the reserve guarantee from the CReW, contributed to the NWC securing its first commercial loan without a sovereign guarantee, for a total amount of US\$12 million.

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