

Arctic Council / ACAP

Financing of projects

The focus is on Russia. Key challenges:

- ◆ **The political and economic transition requires broad simultaneous policy and legislative reform - a difficult process under any circumstances. Interdependence of issues add to the complexity**
- ◆ **Legislative reform has proceeded but there still are areas needing new or complementing legislation - continuity and consequence is important**
- ◆ **Administrative competence needs enhancement - differing interpretations and inadequate resources create uncertainty**

Financing of investments/projects

The principal building blocks of a financing package:

A. Local resources - a basic prerequisite

- ◆ **Public funding from budgetary sources (local, regional, federal); for public investments**

Budgetary resources

Operating income

Tariff policy, Tariff levels, Collection

In-kind contributions in the investment phase

- ◆ **Private funding (sponsors' equity, retained earning); for corporate investments**

B. Foreign assistance – a scarce catalyst

- ◆ **Grants from bilateral assistance programs**
- ◆ **EU assistance programs**
 - TACIS for NIS countries**

C. Loans – the main financial commodity

- ◆ **Commercial banks**
- ◆ **Export credit agencies**
- ◆ **Capital market loans**
- ◆ **International Financial Institutions**

IFIs (continued)

World Bank (IBRD, IFC, MIGA)

EBRD

EIB

NIB

NEFCO

NDEP - NORTHERN DIMENSION ENVIRONMENTAL PARTNERSHIP

13 conventional environmental projects

Barents Sea Program for nuclear safety

Support fund (managed by EBRD)

D. Foreign Direct Investment – the core of capital inflow

- ◆ **Acquisitions**
- ◆ **Joint ventures**
- ◆ **Greenfield plants**
- ◆ **Public-Private Partnerships**

Lenders will require security:

Guarantees

Sovereign, Regional, Local authorities

Project owners

Mortgages and or pledges of property

Control over payment streams

Financiers are focused on the feasibility of the project

A sound investment project should fulfil the following feasibility criteria:

- ◆ Economic feasibility**
- ◆ Financial feasibility**
- ◆ Technical feasibility**
- ◆ Institutional feasibility**
- ◆ Environmental feasibility**

All aspects of feasibility have to be fulfilled
Adequate studies are necessary

Lenders & investors are project focused, not program focused

Only rarely will a program as such merit for loans and/or investments

Each project is evaluated on its own merits

A program can act as a tool for priority setting and guidance for resource allocation

Clear and agreed priorities

Selective and realistic program scope

Concerted action involving all stakeholders

Early involvement of authorities & entities in charge of resource allocation

Identify the project owner/s and get them involved