

---

Postgraduate Certificate in Infrastructure Financing for Water Projects

## Credit Analysis for Water Project Lending

---

### \*\*A\*\*

**Abatement:** The reduction or elimination of pollution from a source. In water project lending, abatement measures may be required to meet regulatory standards and protect water quality.

**Absolute Rating:** A credit rating that does not consider any external support or guarantees. It reflects the creditworthiness of the water project or entity based solely on its own financial and operational performance.

**Acid Test Ratio:** A measure of a water project's short-term liquidity, calculated as current assets minus inventory, divided by current liabilities. Also known as the quick ratio.

### \*\*B\*\*

**Bond:** A debt instrument issued by a water project or entity to raise capital. Bonds typically have a fixed term and pay interest to investors.

**Bond Indenture:** A legal agreement between a water project or entity and bondholders that outlines the terms and conditions of the bond issuance, including interest payments, maturity date, and any covenants or restrictions.

**Bond Ratings:** Credit ratings assigned to bonds by rating agencies such as Moody's and Standard & Poor's. Bond ratings reflect the creditworthiness of the water project or entity and the likelihood of timely interest and principal payments.

**Bullet Payment:** A lump-sum payment of principal at the maturity date of a bond or loan.

### \*\*C\*\*

**Cash Flow:** The inflow and outflow of cash in a water project or entity. Positive cash flow indicates that more cash is coming in than going out, while negative cash flow indicates the opposite.

**Cash Flow Analysis:** A financial analysis that examines a water project's cash inflows and outflows to assess its liquidity and ability to meet its financial obligations.

**Cash Flow Statement:** A financial statement that reports a water project's cash inflows and outflows over a specific period of time.

**Cash Reserves:** The amount of cash that a water project or entity has on hand to meet unexpected expenses or shortfalls in revenue.

**Credit Analysis:** The process of evaluating the creditworthiness of a water project or entity to determine its ability to repay debt.

**Credit Default Swap (CDS):** A financial derivative that acts as a form of insurance against the default of a bond or loan.

**Credit Enhancement:** A technique used to improve the creditworthiness of a water project or entity, such as through guarantees, insurance, or collateral.

**Credit Rating:** A rating assigned to a bond or water project by a credit rating agency that reflects its creditworthiness and likelihood of timely interest and principal payments.

**Credit Risk:** The risk that a water project or entity will not be able to repay its debts as agreed.

**Credit Spread:** The difference in yield between a bond and a risk-free benchmark, such as a U.S. Treasury bond.

## \*\*D\*\*

**Debt Service Coverage Ratio (DSCR):** A financial metric used to assess a water project's ability to meet its debt obligations. DSCR is calculated by dividing the project's net cash flow by its debt service.

**Debt Service:** The total amount of principal and interest payments due on a bond or loan over a specific period of time.

**Default:** The failure of a water project or entity to make timely interest or principal payments on its debts.

**Derivative:** A financial instrument that derives its value from an underlying asset, such as a bond or loan.

**Discount Rate:** The rate used to calculate the present value of future cash flows in a financial analysis.

## \*\*E\*\*

**Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA):** A financial metric used to assess a water project's operating performance. EBITDA is calculated by subtracting operating expenses from revenue.

**Enterprise Risk Management:** The process of identifying, assessing, and managing risks faced by a water project or entity.

**Expected Default Frequency (EDF):** A measure of the likelihood of default on a bond or loan, based on historical data and statistical models.

## \*\*F\*\*

**Financial Covenants:** Contractual provisions in a bond indenture or loan agreement that require a water project or entity to meet certain financial metrics, such as debt service coverage ratio or interest coverage

ratio.

**Financial Modeling:** The process of creating financial projections for a water project or entity, typically using spreadsheet software.

**Financial Risk:** The risk that a water project or entity will not have sufficient financial resources to meet its obligations.

**Fixed Charge Coverage Ratio:** A financial metric used to assess a water project's ability to meet its fixed charges, such as debt service and lease payments.

**Fixed Income:** A type of investment that pays a fixed rate of interest, such as a bond or loan.

**\*\*I\*\***

**Interest Coverage Ratio:** A financial metric used to assess a water project's ability to meet its interest obligations. Interest coverage ratio is calculated by dividing EBITDA by interest expense.

**Issuer:** The entity that issues a bond or loan, typically a water project or entity.

**\*\*L\*\***

**Leverage:** The amount of debt relative to a water project's equity. High leverage indicates a greater proportion of debt to equity.

**Liquidity:** The ability of a water project or entity to convert its assets into cash quickly and easily.

**Loan Agreement:** A legal agreement between a lender and a borrower that outlines the terms and conditions of a loan, including interest payments, maturity date, and any covenants or restrictions.

**Loan Covenants:** Contractual provisions in a loan agreement that require a borrower to meet certain financial metrics, such as debt service coverage ratio or interest coverage ratio.

**Loan Participation:** An arrangement in which multiple lenders provide funds for a single loan to a water project or entity.

**\*\*M\*\***

**Maturity:** The date on which a bond or loan becomes due and payable.

**Maturity Structure:** The distribution of maturities in a water project's debt portfolio, typically shown in a chart or table.

**Monoline Insurer:** An insurance company that specializes in insuring bonds or loans against default.

**\*\*N\*\***

**Net Present Value (NPV):** A financial metric used to evaluate the profitability of a water project or

investment. NPV is calculated by discounting the project's expected cash flows to their present value and subtracting the initial investment.

**Non-Recourse Financing:** A type of financing in which the lender has no recourse to the borrower's other assets in the event of default.

\*\*O\*\*

**Operating Cash Flow:** The amount of cash generated by a water project's normal operations, calculated as net income plus non-cash expenses such as depreciation and amortization.

**Operating Leverage:** The degree to which a water project's fixed costs are proportionate to its variable costs. High operating leverage indicates a greater proportion of fixed costs.

**Operational Risk:** The risk that a water project or entity will not be able to operate effectively, due to factors such as equipment failure, natural disasters