

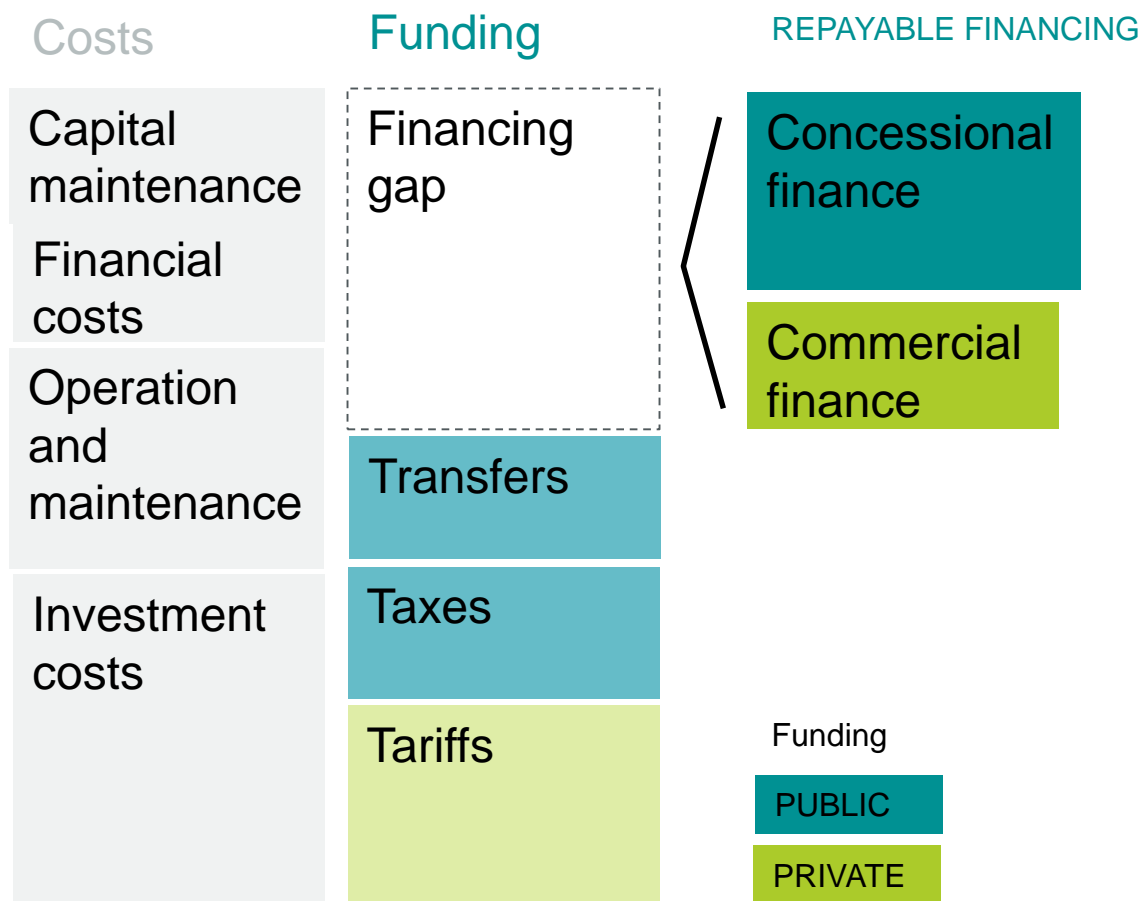
Approaches to financing the water, sanitation and hygiene SDG

World Bank

All countries, regardless of their state of development, need repayable financing...



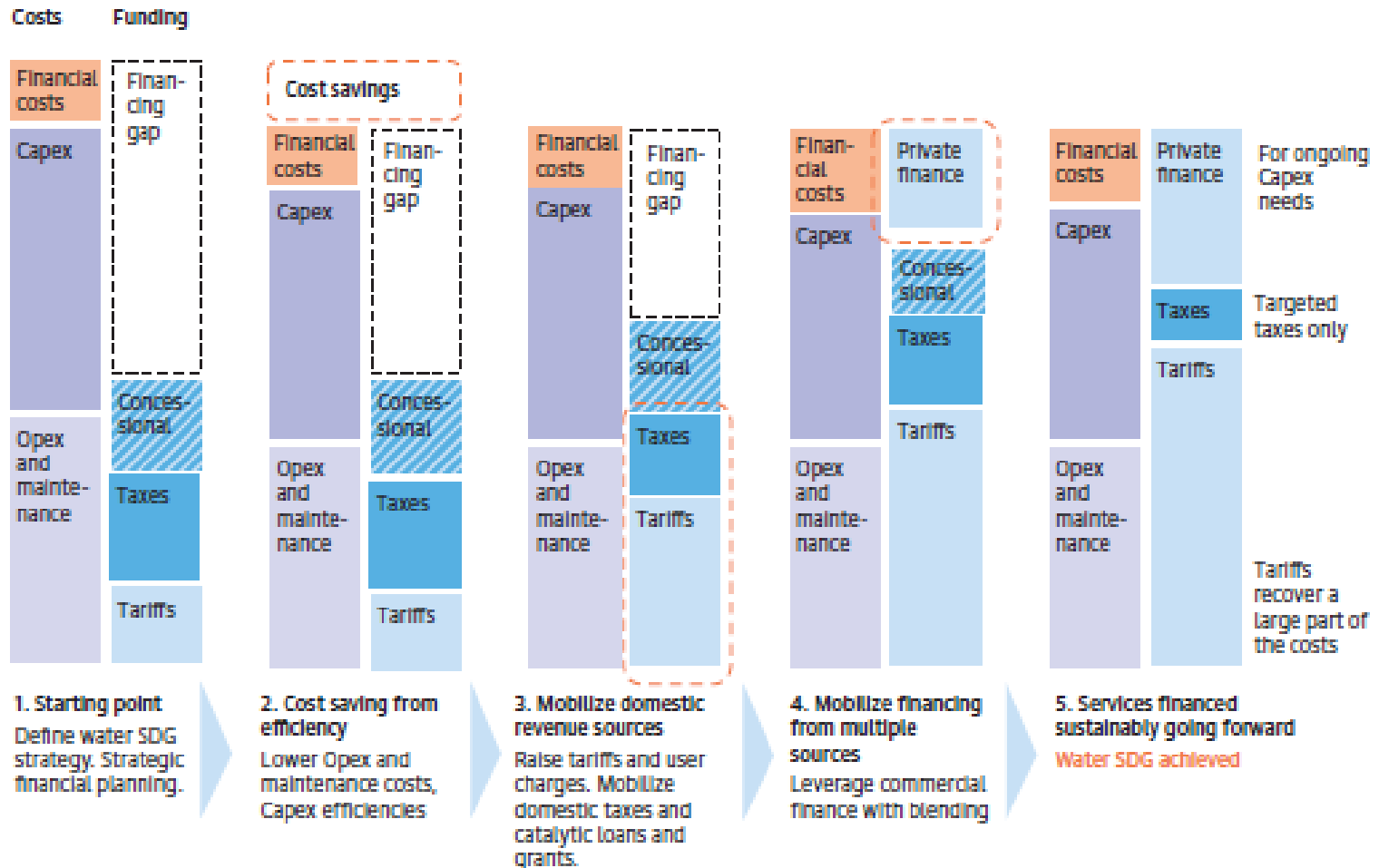
Water service provider's finances



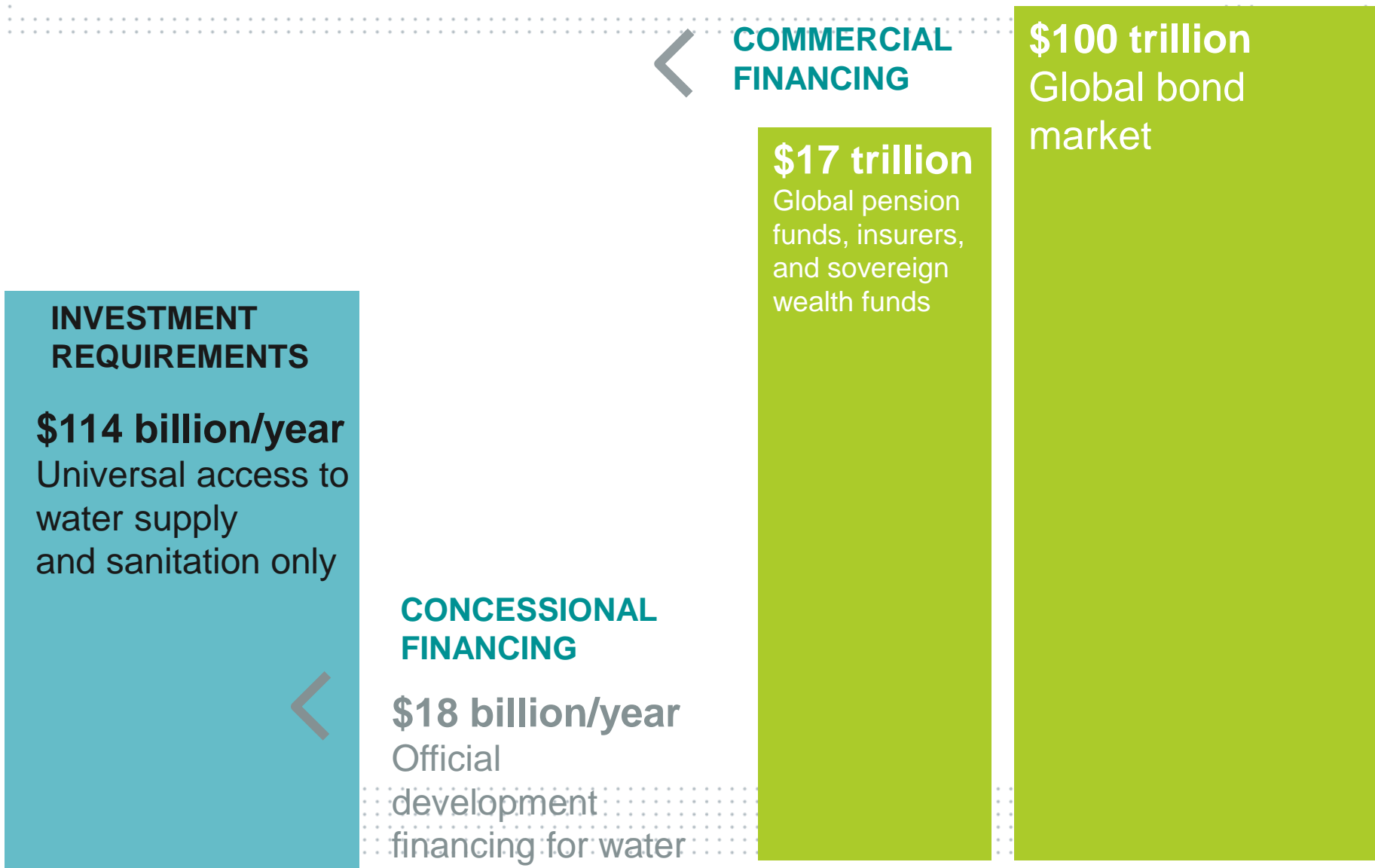
Traditionally, bulk of repayable finance for water came from concessional finance, i.e. from development finance institutions with a grant element

To meet the SDGs, commercial finance needs to be leveraged with a particular focus on *domestic commercial finance*

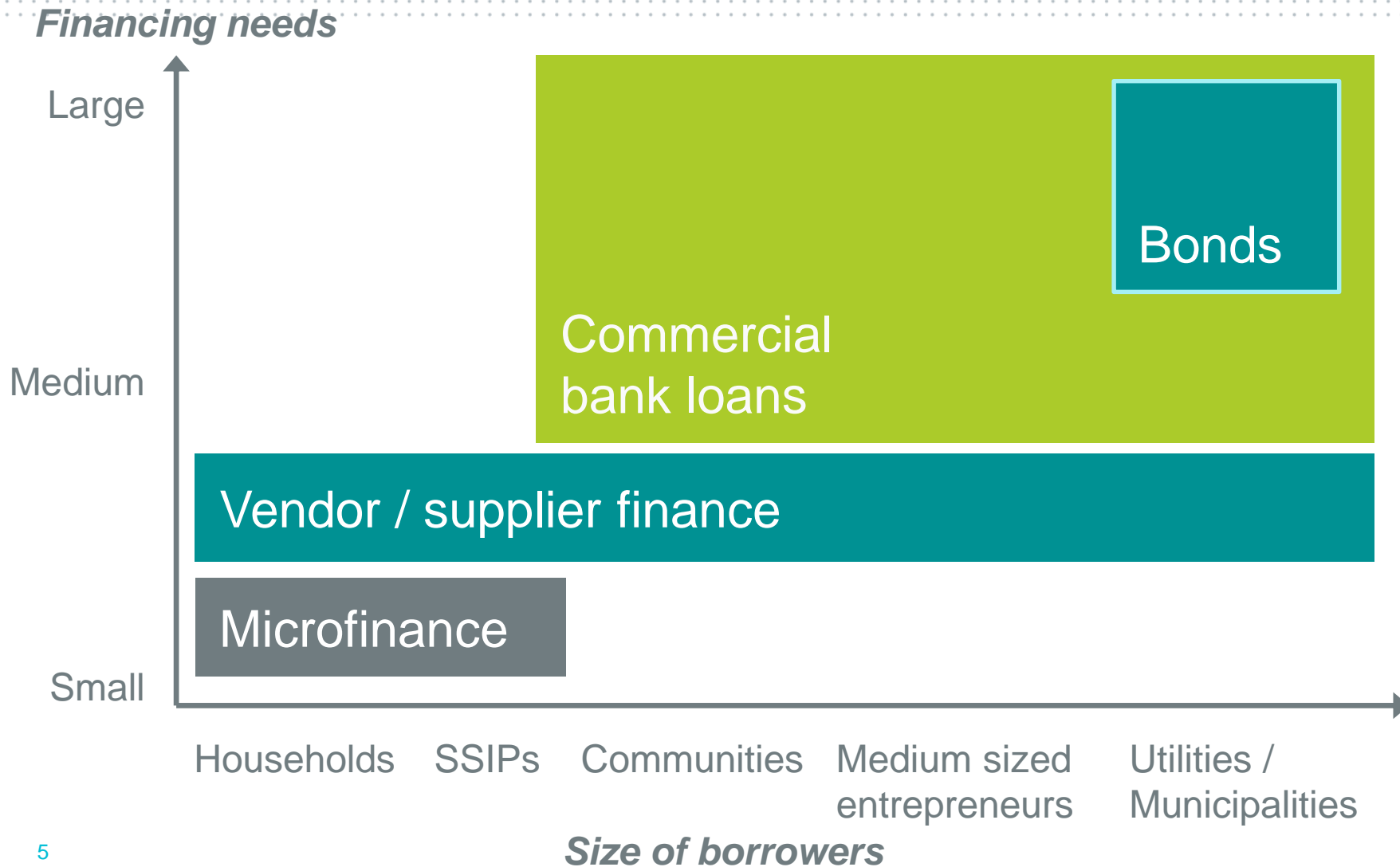
... and will require sector financing strategies



A lot of capital could be attracted to the sector



Commercial finance come from various sources



Public sector benefits are significant



Countries can benefit immediately
from greater commercial finance for the water sector

BENEFITS FOR SOCIETY

- Reduce public debt burden and FX exposure
- Credit-worthy providers are more efficient
- Allows reallocating taxes / transfers and concessional finance to other sectors in need of public funding
- Water providers may pay corporate taxes and dividends

DISADVANTAGES FOR SOCIETY

- Uncreditworthy service providers are not able to access it
- Over-borrowing by weak service providers could lead to failure
- Higher borrowing costs could result in higher tariffs

Service providers can reap long-term benefits



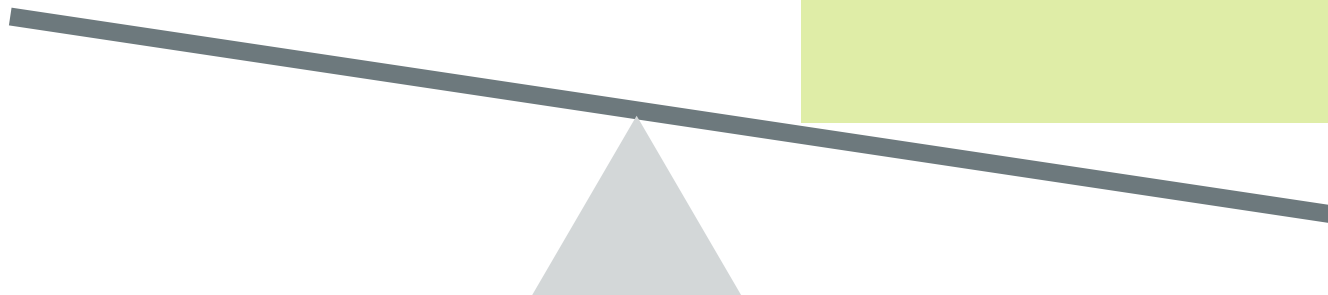
Service providers can reap long-term benefits from accessing commercial finance

BENEFITS FOR SERVICE PROVIDERS

- Additional resources in domestic currency
- Easier and quicker to access
- Increased skills and capacity
- External oversight and accountability: greater transparency and reduces risk

RISKS FOR SERVICE PROVIDERS

- Water sector professionals not familiar with commercial financing approaches and vice versa
- Shorter tenors and higher interest rates



Potential solutions to address constraints



At country level

- Sector reforms: corporatization, strengthened sector governance, adoption of pro-poor sector strategies
- Adopt an incremental and targeted approach to increasing the role of commercial finance, for different types of investments
- Identify sub-sectors and service providers (within these sub-sectors) for which commercial finance can be leveraged
- Engage with financial sector to increase interest in the water sector

From a global/ donor perspective

- Reallocate international transfers: use concessional finance to leverage commercial finance where possible via blending
- Reallocate concessional finance to countries / sub-sectors where commercial finance cannot be mobilized immediately or not in sufficient amounts
- “Sing from the same hymn sheet”: avoid that efforts to move towards private finance are undermined by ‘easy’, free grant funding

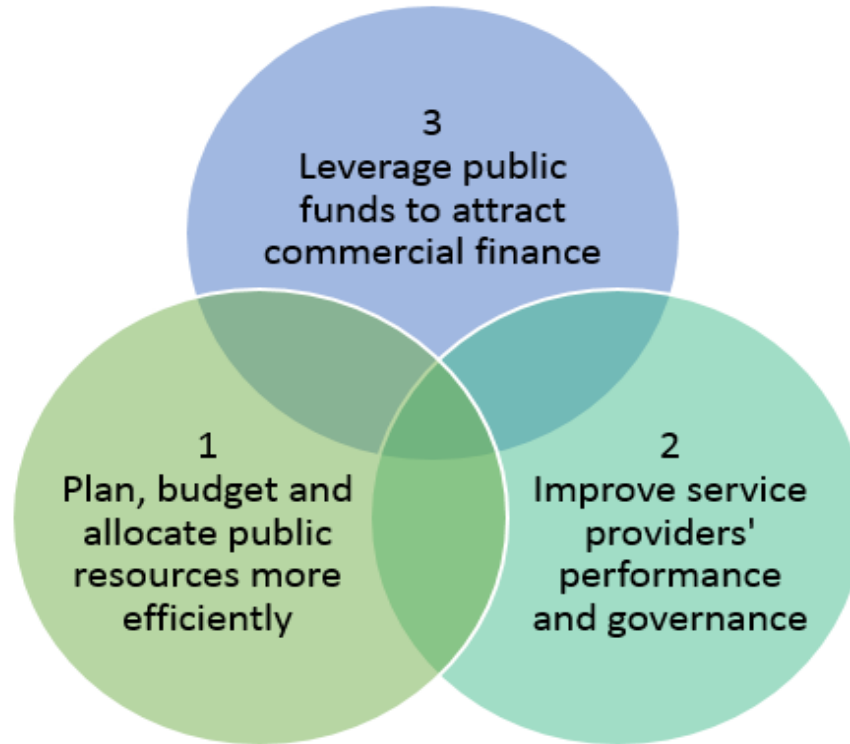
Concessional finance will still be required



BLENDING: smart public finance to leverage private finance

Grants / subsidies	Concessional loans / public finance	Credit enhancements
<p>Results-based subsidies, <i>e.g. to support access extension</i></p> <p>Capacity-building and training <i>e.g. training of borrowers and lenders</i></p> <p>Technical assistance <i>e.g. sensitize banks to market opportunities, assess water investment projects, project preparation, shadow credit ratings</i></p> <p>Support water sector pooling / grouping to access larger commercial finance providers</p>	<p>Provide liquidity to commercial finance providers</p> <p>Blend concessional with commercial finance to soften lending terms</p> <p>“First loss” agreements</p> <p>“Patient capital”: equity participations at below market-rate return expectations can signal commitment</p>	<p>Guarantees: reduce risk perception, leading to lower interest rates and longer tenors</p> <p>Revenue intercepts, escrow accounts: to secure access to funds and reduce risk of non-payment</p>

Helping service providers transition to commercial finance...



Albania: Strategic Financial Planning



- WB supported Government of Albania to conduct Strategic Financial Planning exercise to identify how could expand coverage and meet EU quality targets (necessary for accession) and within which timeframe

Built analytical model to develop concrete road map including:

- Service level improvements
- Efficiency improvements
- Substantial but affordable tariff increases
- More tailored requests for IFI funding

Performance Target	Measure	Base Year 2014	2020	2027	2040
Water Service Coverage	% of Population	62			
Urban	% of Population	89	92	97	99
Rural	% of Population	36	40	65	80
Sewerage Coverage	% of Population	36			
Urban	% of Population	63	65	70	80
Rural	% of Population	6	15	25	50
Wastewater Treatment Coverage					
Urban	% of Population	12	50	70	80
Rural	% of Population	0	15	25	50
Non-Revenue Water	% of System Input	67	59	47	38
Collection Efficiency	% of Current Bills	91	94	96	98
Continuity of Service	Hours/Day	13	14	18	22
Cost Coverage-Collections					
Direct Operating Cost	%	98	>150	>200	>230
Total Cost	%	73	89	94	92

Bangladesh: mobilizing microfinance for rural sanitation



- Bangladesh has eliminated OD (99% people have access to a toilet)
- **Challenges**
 - New / upgraded latrines are too expensive for households
 - Low-cost hygienic latrines not available everywhere; microbusinesses face challenges to access credit
- **Solutions**
 - From 2011, WB supported development of local microfinance for both households and small-scale entrepreneurs (who are also supported with business skills) through larger banks
- **Results**
 - Substantial growth in sanitation markets: sales of latrines grew from 852/year (2011) to more than 275,000 (2015)
 - Loans for sanitation: USD 4.39 million (hh loans), USD 1.1 million for sanitation entrepreneurs

Kenya: mobilizing commercial bank finance



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LEGAL & REGULATORY FRAMEWORK

Kenya Water Act 2002
separates responsibilities for asset ownership and operation, and introduces ring fencing

Tariff reform 2009

Water Act of 2016
actively encourages debt financing

\$20m in pipeline for 8 utilities

FINANCIAL MARKETS

Seven formal credit ratings undertaken (2008)

Shadow credit ratings for 43 WSPs (2011)

Shadow credit ratings for 54 WSPs (2015)

ASSET IMPROVEMENT

• **AfDB/IDA/IBRD/EIB/AFD** >\$600m

ASSET IMPROVEMENT

KUWAS supporting \$12m pipeline & \$2.5m of closed deals

Kenya Pooled Water Fund (under development by GoK with support from Dutch govt)

SUPPORT FOR LOCAL BANKS

IBRD Pilot w/K-Rep Bank (2007)

IBRD K-Rep Bank program scaled up w/EU support (2010)

\$6m in commercial loans to Nairobi WSC for 10 years

\$2.5m for OBA

RESULTS TO DATE

\$12.7 million commercial financing mobilized to improve services in low income areas, with \$20 million in pipeline.

Tenor of loan increased from 5 years in pilot phase to 10 years.

2002 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 PIPELINE

How can such a transition be organized



- **Strategic financial planning:** help countries define realistic / affordable sector goals
- **Identify specific financing needs and tailor financing approaches**
- **Segment the market:** start working with better performing service providers and gradually improve performance of other service providers, by linking concessional financing to performance improvements
- **Support the setting up of financing structures at national level that can attract blended finance**





Thank you