Panel 9

Innovative Financing for the 4th Industrial Revolution in the Water Sector

The Core of Funding Water and Sanitation in Africa

Developing Sustainable Water and Sanitation Infrastructure in Africa

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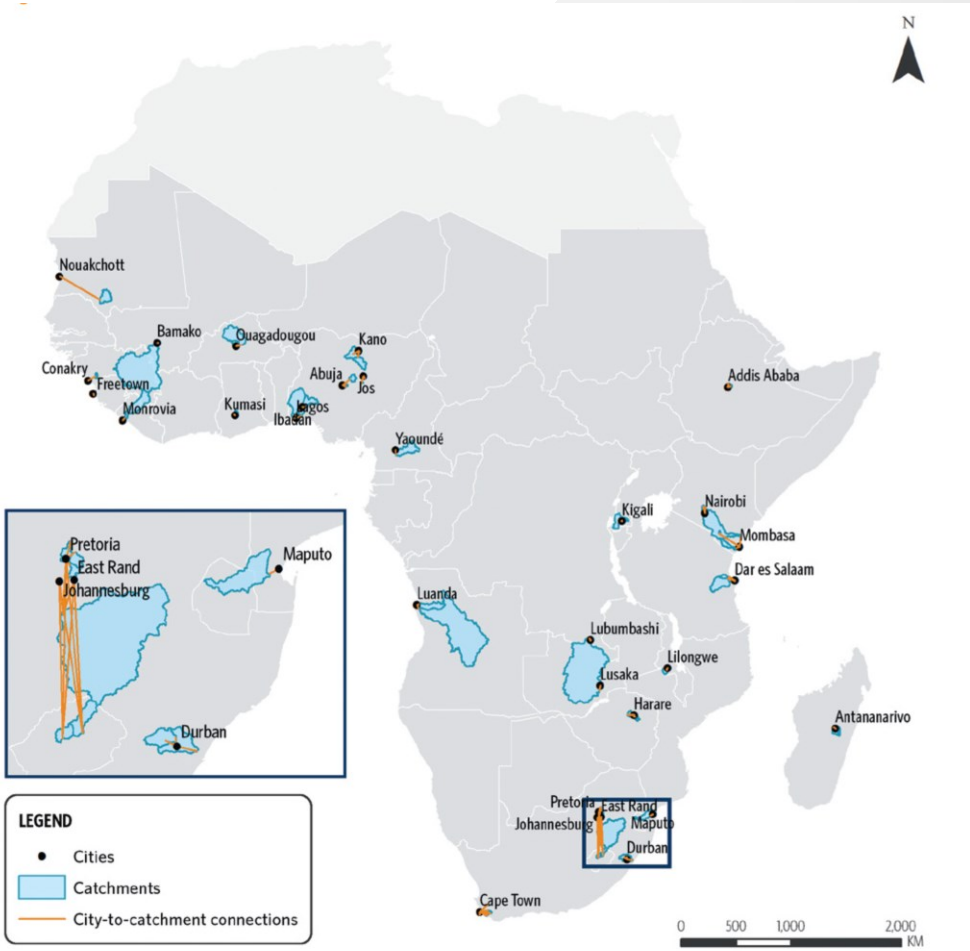
The Core of Funding Water and Sanitation in Africa

Jurisdiction / Geographical Coverage



Surveyed cities and their surface water catchments (denoted by orange lines), where several cities can withdraw from the same source

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Introduction

- Pedro Amaral Jorge, Private Sector Expert on on Non Sovereign Operations and Transactions, State Owned Enterprises (SOE's) and Public Private Partnerships (PPP's)
- AfDB on Non Sovereign Operations and Transactions for Water and Sanitation Projects
- Provided Financial Services and Products
  - Loan Products
    - Sovereign Guaranteed Loans (Public Sector)
    - Non sovereign guaranteed Loans (Private Sector)
    - Nigeria Trust Fund Loans
    - Local Currency Loans
    - Syndicated Loans – Parallel co-financing and A/B structures

- Provided Financial Services and Products
  - Guarantees
  - Equity and Quasi Equity
  - Risk Management Products
    - Interest Rate Swaps
    - Currency Swaps
    - Commodity / Index Swaps
    - Interest Rate Caps and Collars
  - Special Funds – Technical Assistance
    - Climate Chane Mitigation and Adaptation
    - Fund for African Private Sector Assistance
    - African Legal Support Facility
    - Middle Income Countries Trust Fund

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P1. Private finance / public finance to fill the funding gap in water and sewerage infrastructure.

- Private finance is essential to bridge the water supply gap in Sun Saharan Africa;
- Public finance is also required:
  - Protect lower income population
  - Cross subsidize water tariffs where required
- NSO in AfDB:
  - State Owned Enterprises
  - Public Private Partnerships

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P2. Blended finance mechanisms using public resources versus direct government investments in water

- Blend finance can and will be used to bridge the water supply gap in Sun Saharan Africa;
- Blend finance is not a grant
- Its been developed to attract private sector financing and investment
- Blended concessional finance for private sector projects is one of the significant tools that Multilateral Development Banks and development finance institutions (collectively," DFIs") can use, in cooperation with donors and other development partners, to increase finance for important private sector activities, help address the Sustainable Development Goals (SDGs), and mobilize private capital.

DFI Working Group on Blended Concessional Finance for Private Sector Projects

SUMMARY REPORT

October 2017

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SUBJECT TO ENDORSEMENT BY THE MDB HEADS.

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P3. Full cost recovery: is it a realistic option in Africa given the disproportionate burden this places on the most vulnerable members of society?

- Full cost recovery (or path) is an absolute necessary condition to attract the huge amount of financing available to develop water supply and sanitation infrastructure and service providing
- Full cost recovery path must be included in financial plans of water providers
- Full cost recovery path requires the "Utility" model to be implements on State Owned Enterprise models, working together with the private sector on "Concessions" or BOT's
- Full cost recovery is essential to achieve integral sustainability:
  - Social - economic affordability path
  - Environmental – Water resources must be managed and preserved
  - Economical – The broad spectrum of water consumers must pay for water at the economic affordability range
  - Financial – billing and collection is critical

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P4. Integrating climate change agenda in water supply and wastewater: how is affecting challenges and priorities in Africa water sector?

P5. Critical technological developments to drive improvement in efficiencies in the African Utilities sector.

P6. Energy (efficiency, production and valorization) in the urban water cycle: achievements and way forward.

- CAPEX
- Bankable
- Integral Sustainability

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Managing key Challenges

- Key Challenges
  - Lack of proper communication of the Economic and Social Value of Water is by Country Leaders and Politicians;
  - Lack of proper Country investment in water catchment and resources creation and management;
  - Lack of willingness to pay for water and sanitations services:
    - Population considerers that water should be supplied free of charge, however People pay for Smartphones / Telcos / Fuel for heating and transportation / Energy for household appliances / Cable TV / etc.
  - Lack of Water and Sanitation Utility Model, NSO Funding requires the Utility Model to be applied in order to become self sustainable or to be on the path of becoming so, either for SOE's or PPP's
  - Lack of full cost recovery capability , On the "Utility" cost structure of the water and sanitation service providing, the private sector in obliged to <u>cover capital and financial costs for debt service and reimbursement</u>, while Governmental Institutions, Cities or Municipalities as well State Owned Enterprises at best cover their operational costs and capital costs are cross funded through national or local budgets
  - Lack of 24/7 supply, or even predictability and reliability on the supply

- Limited capital and debt are disbursed as a consequence of
  - Low tariffs and inadequate tariff structures
  - Billing and collection issues
  - NRW
  - Deficient Investment Plans and Programs
  - Lack of governance, leadership and Management
- Lack of Countries to give Sovereign Guarantees "support" when necessary to SOE or PPP projects
- Lack of Adequate legal framework
  - "Water Law"
  - State Owned Utilities incorporation
  - Public Private Partnerships
  - Procurement Process for EPC and BOT according to international practices
- Lack of Governance
- Lack of Management
  - Operational
  - Financial
  - Investment

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AFRICAN DEVELOPMENT BANK GROUP

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Managing key Challenges

- Key Challenges specific to finance by debt or equity :
  - Lack of skills and management processes to develop of a strong financial plan linked to the "Utility's" Strategic vision (corner stone of long term sustainability)
  - Lack of Strong leadership and an effective management structure as necessary condition to successful financial planning and implementation
  - Lack of establishing effective financial policies and procedures (debt service coverage, types and levels of reserves, frequency of rate increases, extension of service, asset depreciation, etc, must be a major management focus of the Utility's
  - Financial distress on the "Utility" which is by it self incapable of setting appropriate reserve levels the key to providing rate stability and financing flexibility and, where applicable, favourable bond ratings
  - Lack of Utility's rate/tariff structure and affordability by the users (whether businesses or households)
  - Lack of balancing Utility's financial sufficiency (CAPEX and OPEX and Financial Costs coverage) with community sustainability is critical to all stakeholders, and helps to get Governmental support
  - Lack of communicating effectively with costumers and other critical stakeholders is essential in gaining buy in to a Utility's financial plan and rate/tariff structure
  - Incapability of forecasting demand and billable units is fundamental in developing appropriate rates/tariffs
  - Billing and collection are in dire straits so its impossible to keep operating and capital cost under control although it must be the major focus on the Utility's management team