INNOVATIVE FINANCING APPROACHES TO WSS INFRASTRUCTURE

CITRICAL IMPORTANCE OF FINANCE

- Facilitating Local Economic Growth
- Sustainable WSS services
- Access to Debt Finance
- Improved Operational Management

- Improving Livelihood of All
- Expand Coverage
- Improve Service
- Increased Local Revenues
- Equity & PPP

- Improved Financial Management

pro-growth

pro-poor

### Achieving Full Coverage

<table>
<thead>
<tr>
<th>Stage of water sector</th>
<th>Current coverage</th>
<th>Growth target years for full coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infant</td>
<td>25%</td>
<td>30 years</td>
</tr>
<tr>
<td></td>
<td>50%</td>
<td>20 years</td>
</tr>
<tr>
<td>Mature</td>
<td>75%</td>
<td>8 years</td>
</tr>
<tr>
<td>100%</td>
<td></td>
<td>Less than one year</td>
</tr>
</tbody>
</table>

### Sustainability Challenge

- Low tariffs
- Declining revenues
- Unpaid bills
- Inability to access financing
- Declining credit rating and investment
- Deteriorating assets
- Declining productivity
- Increasing operating costs
- Intermittent supply
- Poor quality water
- Angry customers
- Unwillingness to pay

Assets deteriorate & expansion is difficult if full economic costs are not recovered. Service to the poor & wastewater suffer.
UNSUSTAINABILITY MADE CLEAR

PROBLEM
- Overdependence on subsidies to cover operational costs.
- Often subsidies are on-lend as conditional loans.
- Overdependence is unsustainable and reduces creditworthiness.

SOLUTION
- Become more dependent on own source revenues (tariff increases!).
- Use subsidies for targeted, one-off activities.
- Make subsidies conditional on good performance.

GOVERNMENTAL TRANSFERS & SUBSIDIES
ALTERNATIVE FINANCING OPTIONS

DEBT FINANCING
• Short-term loans (e.g. rehabilitation, transitional reforms)
• Long-term loans (e.g. green field, expansion, intensification)
• Long-term Revenue or General Obligation Bonds
• Revolving Fund/Pooled Bonds

PRIVATE EQUITY/PUBLIC PARTNERSHIPS
• Lease contracts
• Build Operate Transfer/Concessions

MICRO-FINANCING (e.g. house connections, public toilets)

FINANCING BARRIERS
• **Costly** (capital intensive, high up-front investments, long payback because, low returns)
• **Returns not guaranteed** (political pressure on tariffs)
• **Difficult to control** (weak regulation, lack of transparency)
• **Difficult to assess** (lack of credit rating system)
• **Not creditworthy** (poor collections, high NRW, subsidy dependence)
• **Lack of guarantees** (lack of credit enhancements)
CHICKEN or EGG DILEMMA

Financing requires Reforms
WSS Reforms require Financing

Where to Start?

MAKING A UTILITY & PROJECT BANKABLE

Bankability: creditor’s confidence in both the viability of the utility or local government as a creditworthy institution and the viability of the utility’s project to be financed as a reliable source of future revenue flow.

• Measures of good governance/business practice include:
  - Level of independence (“arms-length”) and conducive regulatory and policy environment
  - Good management principles (e.g. performance incentives)
  - Technical performance (e.g. NRW, collection, staff ratio)
• Financial health measured by ability to recover cost of:
  - Operation, maintenance and replacement of assets
  - Depreciation of assets
  - Taxes (if applicable)
  - Debt servicing of existing and proposed investments
• Revenue can be own-source plus from PREDICTABLE concessionary assistance
SUPPORTING TRANSITION - PHILIPPINES

- Clean Water Act and EO 279 ('04) set targets for WSS sector
- Under EO 279 utilities are classified on their creditworthiness
- EO 279 directs creditworthy utilities to borrow on market
- USAID/JBIC support GRP develop a Water Revolving Fund
  - Lending and credit enhancement arrangements for the PWRF, including supporting efforts by JBIC (capitalization loan) and USAID (DCA guarantee)
  - Strengthen selected elements of the water and finance sectors vital to PWRF Program success; and
  - Develop pipeline of viable projects

SUPPORTING TRANSITION - PHILIPPINES (cont)

- EO 279 also requires LWUA to assist in graduating less creditworthy utilities to creditworthy status
- USAID intends to support LWUA in developing transitional loan products for less creditworthy utilities
  - Assess efficiency improvement needs of two pilot utilities
  - Prepare efficiency improvement proposals and term sheets
  - Identify needs for complementing TA
  - Determine most appropriate lending scheme based on risk assessments
  - Develop loan portfolio that would progressively provide access to additional finance for a wider variety of initiatives