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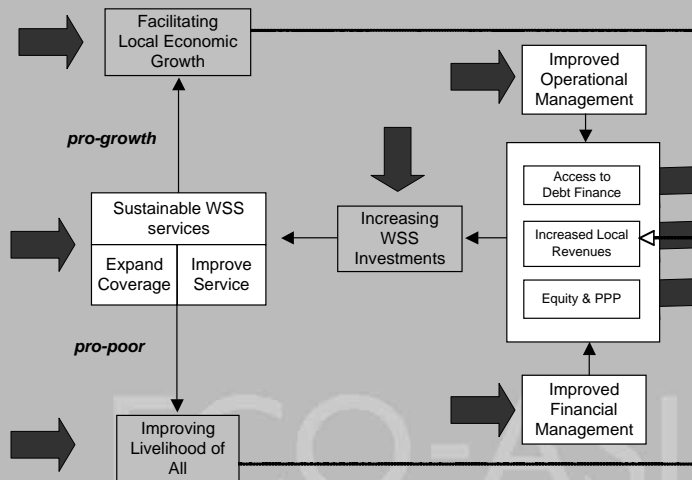
## INNOVATIVE FINANCING APPROACHES TO WSS INFRASTRUCTURE



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### CRITICAL IMPORTANCE OF FINANCE





## ACHIEVING FULL COVERAGE

Stage of water sector	Current coverage	Growth target rates for full coverage		
		5%	10%	15%
Infant	35%	30 years	13 years	8 years
	50%	20 years	9 years	6 years
Mature	75%	8 years	4 years	2 years
	100%	– Less than one year –		

*Aldo Baietti and Paolo Curiel, "Financing Water Supply and Sanitation Investments, Estimating Revenue Requirements and Financial Sustainability", Water Supply & Sanitation Working Notes, Note No. 7, October 2005*

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## SUSTAINABILITY CHALLENGE

- Intermittent supply
- Poor quality water
- Angry customers
- Unwillingness to pay

**Cycle of Physical & Commercial Decline**

- Deteriorating assets
- Declining productivity
- Increasing operating costs

- Low tariffs
- Declining revenues
- Unpaid bills
- Inability to access financing
- Declining credit rating and investment

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

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## UNSUSTAINABILITY MADE CLEAR



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## GOVERNMENTAL TRANSFERS & SUBSIDIES

### 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

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## 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



WSS Reforms require Financing



Financing requires Reforms



# 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 EO279 ('04) set targets for WSS sector
- Under EO279 utilities are classified on their creditworthiness
- EO279 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

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## 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

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