

Identifying Opportunities and Challenges for Up-scaling Access to Water and Sanitation through Private Sector Participation in SSA

Recommendations and Identified Areas of Support

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Objectives

The objective of the assignment was to:

Identify concrete areas of (financial & technical) support to scale up access to water and sanitation through private sector participation.

Four areas of focal interest were identified and recommendations made

- 1. Non-Revenue Water (NRW)**
- 2. Developing the local private sector**
- 3. Capacity Development**
- 4. Innovative Financial Instruments**

Non-Revenue Water

- ◆ Despite abundant efforts by governments, international finance institutions, donors, water operators, research institutions, have been taking initiatives towards NRW reduction ...

it is striking that in many cases the performance improvements in NRW tend to reverse with time.

- ◆ **NRW reduction projects offer an elegant way to engage into utility reforms for improved service quality and financial sustainability.**

Developing the Local Private Sector

- ◆ The **development of a medium-sized domestic private sector**, better calibrated to address the challenges of the water sector in small towns and secondary cities, and towards low-income areas. (*based on the observation that the international private operators are too large, and the SSIPs are too small*)
- ◆ The **professionalization of small-scale independent providers** (SSIPs)

Developing the Local Private Sector

- ◆ The **mainstreaming of new contracting arrangements** (e.g. PSAs)
 - between the international private sector, public water utilities, and local government (“*contractualization*”)
 - leading to improved operational and financial performance and increased access to the service

Capacity Development

- ◆ The **African Water Academy** (AfWA – Kampala), who is dedicated to leadership development and change management, **to provide a platform for peer to peer learning** on PPP practice and procurement in the water sector.
- ◆ Inspired by the EIB sponsored European Public-Private Partnership Expertise Center (EPEC) to **strengthen the ability of the public sector** (at national and local level) to engage in PPP transactions in water and sanitation, **support the establishment of a similar initiative in Africa**. The AfDB in partnership with EIB and ACBF to explore the feasibility of such initiative in Africa.

(Innovative) Instruments to Attract Financing in the WSS Sector

Some preliminary thoughts – 1

- ◆ There is a pressing need to develop financially viable service providers and their creditworthiness to allow access to financial markets.
- ◆ Facilitating a corporate outlook to urban water and sanitation services as an avenue to efficiency, effectiveness and efficacy are hereby key factors.
- ◆ A PPP approach can be an effective instrument to achieve this objective.

(Innovative) Instruments to Attract Financing in the WSS Sector

Some preliminary thoughts – 2

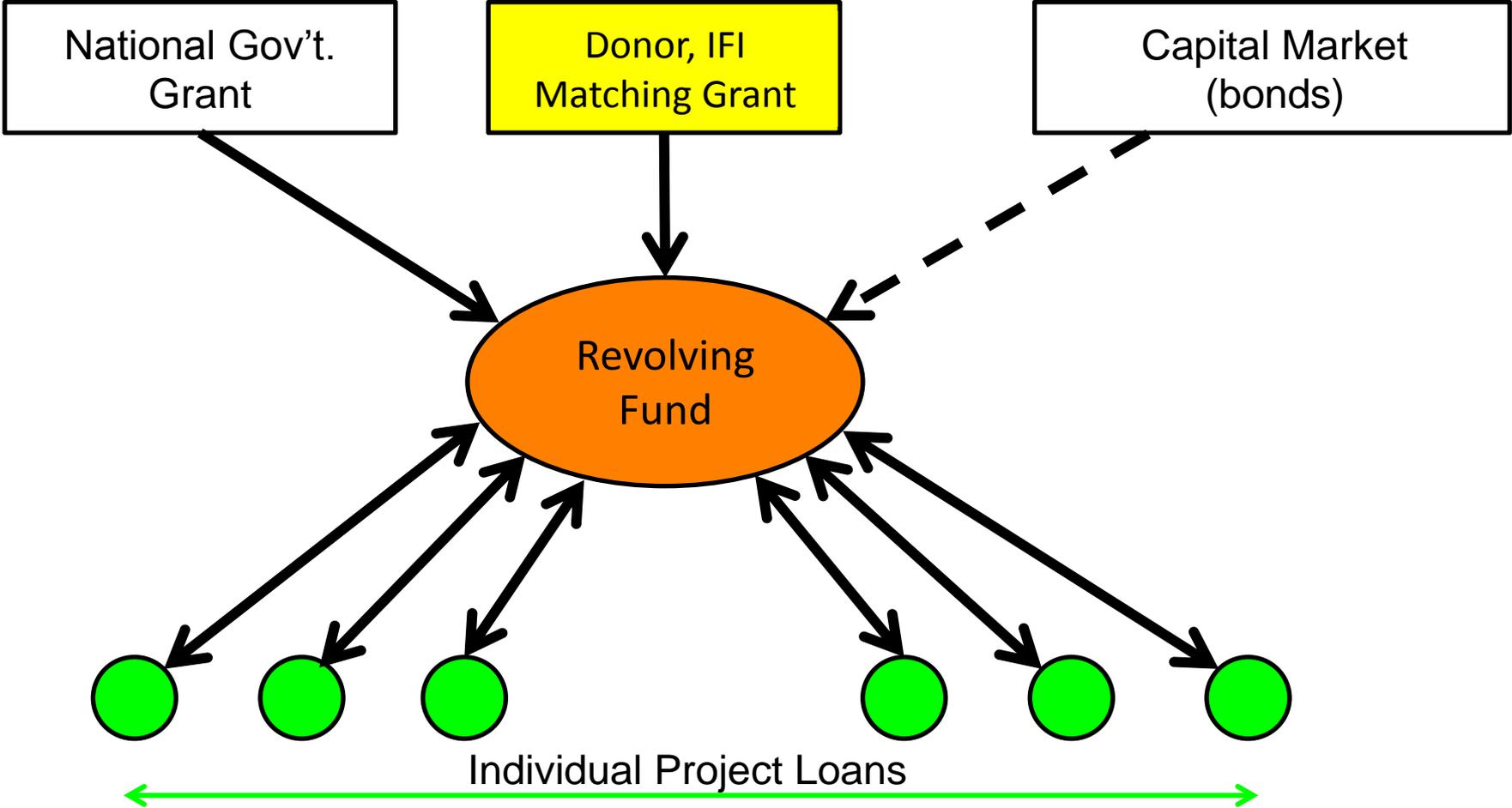
- ✓ **Utilities to improve their internal management strategies** to improve financial viability.
- ✓ **Governments to support utilities to access market finance** by introducing appropriate institutional and regulatory frameworks that support utility autonomy.
- ✓ **IFIs/Donors to use their funds to leverage market resources**, and to provide an impetus to institutional and regulatory reform, working with government and utilities.
- ✓ **Banking sector to be aware and understand the water sector**, and available donor support programs/facilities.

(Innovative) Instruments to Attract Financing in the WSS Sector

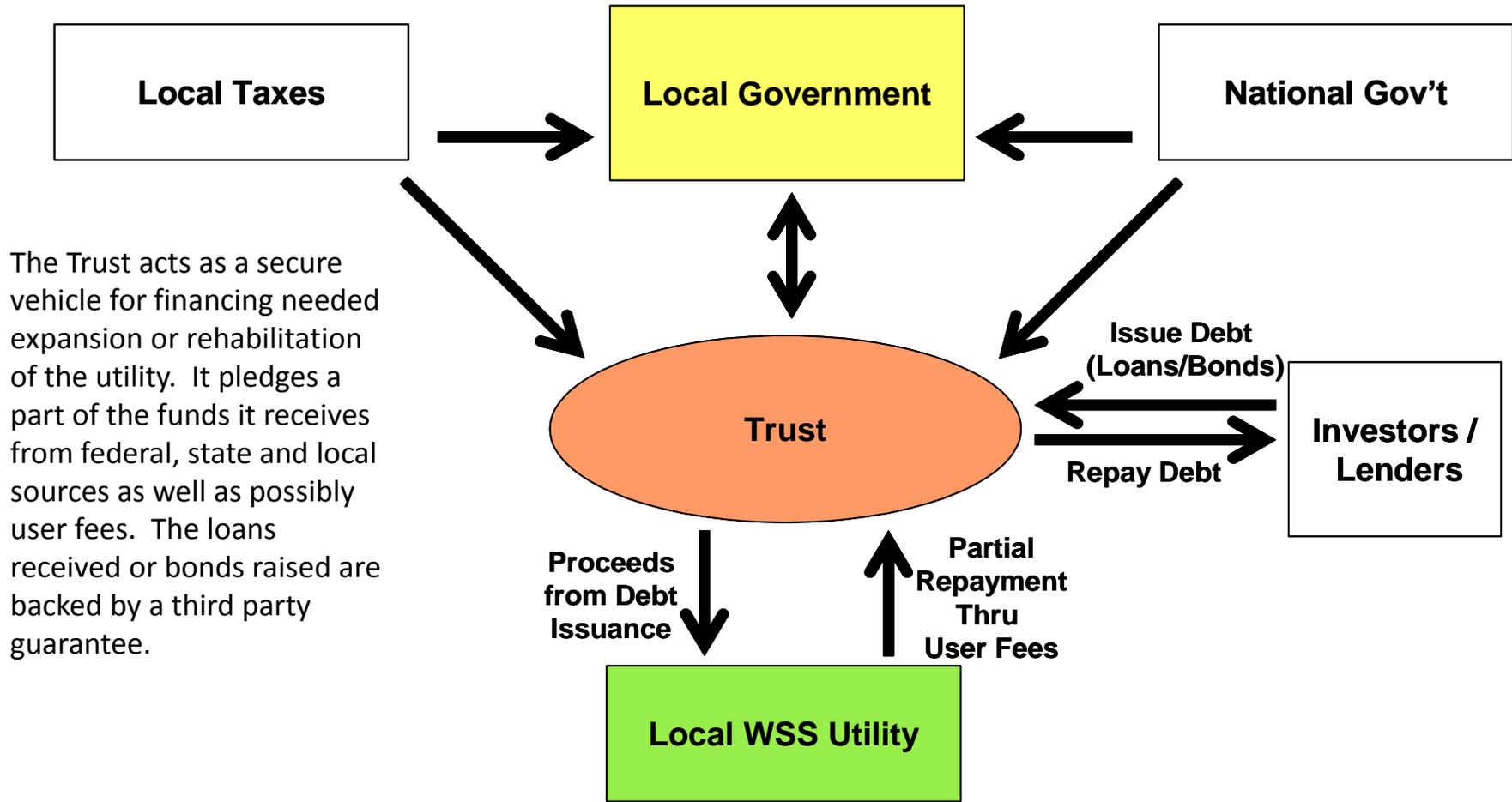
Five proposed instruments to attract financing:

1. The Revolving Fund Model
2. The Trust Structure Concept
3. The Progress-Linked Finance Model
4. The Water Reform Investment Facility
5. A regional (Equity) Investment Platform

Financing—Using the Revolving Fund Model



Financing—Using the Trust Structure



The Trust acts as a secure vehicle for financing needed expansion or rehabilitation of the utility. It pledges a part of the funds it receives from federal, state and local sources as well as possibly user fees. The loans received or bonds raised are backed by a third party guarantee.

(Innovative) Instruments to Attract Financing in the WSS Sector

The Progress-Linked Finance (PLF) Model

◆ Key attributes

- ✓ Increasing access and quality of service to low-income urban settlements in a financially sustainable.
- ✓ Linking finance to demonstrated results and capacity improvements as an incentive to reform.
- ✓ Directly engaging with and supporting the entities mandated to provide services in urban areas, i.e. utilities and municipalities (and, through them, smaller-scale or informal service providers).
- ✓ Providing an access to finance for such service providers regardless of their initial capacity and financial sustainability.

In partnership with Water & Sanitation for the Urban Poor (WSUP)

(Innovative) Instruments to Attract Financing in the WSS Sector

The Water Reform Investment Facility

◆ Rationale

- ✓ Improve access to capital for well performing and improving water utilities, and, leveraging private financing from public resources.
- ✓ Create incentives for water utilities to improve their performance.
- ✓ Provide access to local currency denominated debt for water utilities of an appropriate tenor and at fixed interest rates, encouraging local lenders and capital markets to expand into lending to infrastructure services generally
- ✓ Provide long-term placements to the financial markets other than sovereign bonds, which should in turn in time improve the tenors of debt instruments available.



Thank you

