



Finance instruments – status and trends

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Sustainable financing

- Back to basics:
 - Basic revenues (tariffs, taxation, transfers – the 3Ts)
 - Repayable funding (loans, bonds, equity)
 - Facilities to bridge the two (e.g. guarantees, enhancements)
- “Innovative” forms (non-traditional, decentralised, sub-sovereign...)
- striking realistic balance between demand & supply of finance, adjusting requirements
- looking beyond finance to service standards & quality, efficient provision, reforms to governance
- Finance a necessary but not a sufficient condition: other bottlenecks need tackling



Tariffs

- Tariffs for WSS barely cover O&M costs: result- poor services, deteriorating infrastructure
- Tariff reform as part of wider reforms to governance, service improvements (e.g. Senegal, Uganda)
- Situation in hydropower – cross subsidies to other users
- Stubborn problem of irrigation charges: need for more comprehensive solutions



National budgets

- Several channels:
 - Transfers to cover administrative overhead costs
 - Consumer subsidies & social safety nets
 - Underwriting deficits of providers
 - Subsidies for capital expenditure
- Subsidy policy needs to be principled & transparent
- Value of multi-year commitments, to give providers assurance & continuity



ODA , philanthropy & solidarity

- Bilateral + multilateral ODA to WSS trending upwards (over \$4 bn in 2006)
- Plus \$1.6 bn for water transport, hydro, irrigation
- ODA revenue for both recurrent & capital spending
- Donor agencies committed to harmonisation & alignment with national systems
- Private philanthropy a major source
- Risks of proliferation & burdens on recipients



Loans

- Bank loans (Project & corporate finance) have high threshold costs
- In Africa, banks need risk mitigation & comforts
- IFI lending (AfDB, World Bank, etc.) should gain more favour
- Microfinance (e.g. Cote d'Ivoire, Kenya, revolving funds) good at community level



Bonds

- Some sovereign bonds, but few municipal (Jo'burg, Uganda NWSC)
- Minimum size
- Need credit enhancement
- Pooling (e.g. USAID)
- Credit rating
- Significance of pension reforms



Equity

- Risk capital, public or private
- PSP may involve equity, but other forms too
- Cushions balance sheet, but an expensive source
- Trend towards lower risk forms of PSP (e..g in brownfield water concessions, hydropower)
- PSP in irrigation (Morocco, Egypt)



Facilitation & leveraging

- Guarantees & Insurance
- B loans & preferred creditor status
- Loan subsidies & co-financing
- Output-based aid
- Convertible loans & debt-equity swaps
- Social investment & blended value models
- Others: shadow credit rating; bond pooling; project preparation & development facilities



Potential for leveraging: what it does

- Mitigating specific risks, improving funding terms
- Wrapping loans into grants, multiplying volume
- Building acceptable financing package from various elements
- Transparency over future cash flows (e.g. shadow ratings)
- Strengthens balance sheets, improves creditworthiness
- Other impacts: eliciting better performance, reducing transactions costs, leveraging non-traditional sources, projectising potential income streams)



Impact of international financial crisis on WSS

- Macroeconomic impact on emerging and developing economies
- More difficulty raising “external” commercial & private finance of all types
- Increased interest in IFI lending?
- Fluctuations in commodity markets & energy
- Priority to nurture & protect cash flows (e.g. by “housekeeping” measures)
- Shift in balance between “statist” & “market” financing options
- Interest in investing in infrastructure as a “Keynesian” response to recession



Practical steps

- Keep international financial situation under review
- African Governments make longer term (e.g. 3-5 year) budgetary commitments to water, against performance undertakings
- Donor agencies align ODA with national 3-5 year budgetary cycles, for continuity & predictability
- Consider a specifically African Panel or Task Force on water financing
- Promote development of national water Financing Strategies
- Review status of, and demand for, recently created facilities & financing mechanisms