

# **DIALOGUE ON FINANCING AN EXPANSION OF WATER STORAGE – GETTING DOWN TO THE ULTIMATES**

by

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# PRESENTATION LAYOUT

- Quotations to set the scene
- The four ultimate payers
- Benefits, dis-benefits and risk relationship
- Identifying financing sources
- Project preparation support
- Constraints and challenges
- Recapping the five “ultimates”
- Possible dialogue topics

- ***“High on the abutment where the dam would be, stood the dam promoter and high on the other abutment stood the financier. And they called across to each other to tell of the great things they could do. But the rush of the mighty river drowned their words so that each did not hear the other.”***
- Anon

***“In order to meet the special needs of Africa, we call upon our governments, ....., and development partners, to extend concrete, substantial and tangible support to the following quick impact actions:***

***.....mobilise investments to attain the necessary water infrastructure platform***

***.....deepen our regional partnerships over water use infrastructure, ....., and looking for opportunities to invest in infrastructure of regional importance”***

- **AMCOW** (Ministerial Declaration African Water Week July 08)

***To mitigate the economic impacts of hydrological variability in Africa, much greater water storage capacity is needed.***

- David Grey

***“Governments since the time of the ancient Egyptians have financed the capital costs of irrigation infrastructure out of general tax revenue”***

- UNDP

***“The necessary (infrastructure) expansion is on a scale that means that in the short term only a small fraction could be funded by African public finances. Experience has told us that only a small fraction will come from the large private sector operators”***

- Commission for Africa

***“In 2006, private capital flows to sub-Saharan Africa overtook official aid for the first time.”***

- International Monetary Fund



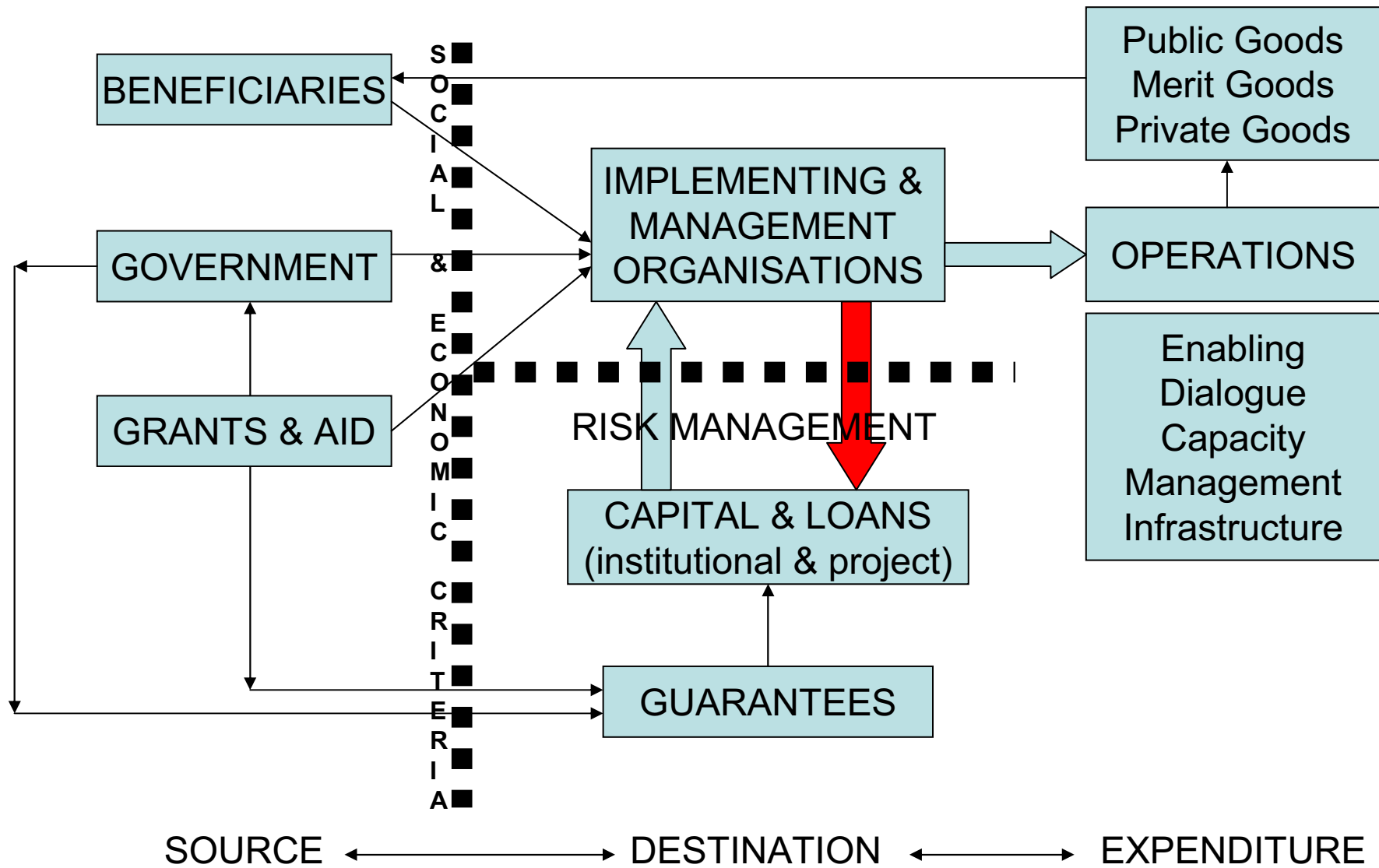
***“Because dam building is typically an amoral, nation-building enterprise, not just the large dams – the Hoovers, Grand Coulees, Sardar Sarovars, Bujugalis, Karibas and Three Gorges – even the millions of smaller dams, if you scratch their surface, became possible only through market-distorting subsidies to those individuals, collectives and municipalities who construct, own and operate them.”***

- James Workman

***“We have told our story. What happens next is up to you”.***

- World Commission on Dams

# FINANCIAL FLOWS



# BENEFITS OF STORAGE DAMS AND FINANCING IMPLICATIONS

BENEFIT	ECONOMIC CLASSIFICATION	FINANCING IMPLICATIONS
Hydropower	Private good	Tariffs largely support financing
Water Supply	Private / Merit good	Mixed bag – depends on economic status of consumers
Irrigation	Private / Merit / Public good	Tariffs do not pay for financing
Flood mitigation	Public good	Public financing
Recreation and aesthetic	Public good	Public financing

# DIS-BENEFITS OF STORAGE DAMS

- Environmental degradation
- Loss of livelihoods and factors of production
- Loss of spiritual, cultural and aesthetic amenities
- Etc
- Etc

# RISK

- Dis-benefits add to risk (eg reputational)
- Financial institutions are risk averse
- Having an “appetite for risk” is a very relative phrase.
- A large part of project preparation is concerned with the avoidance, mitigation and assignment of risk.
- Unresolved risk shows up in the interest rate

# FINANCING MECHANISMS FOR THE WATER SECTOR

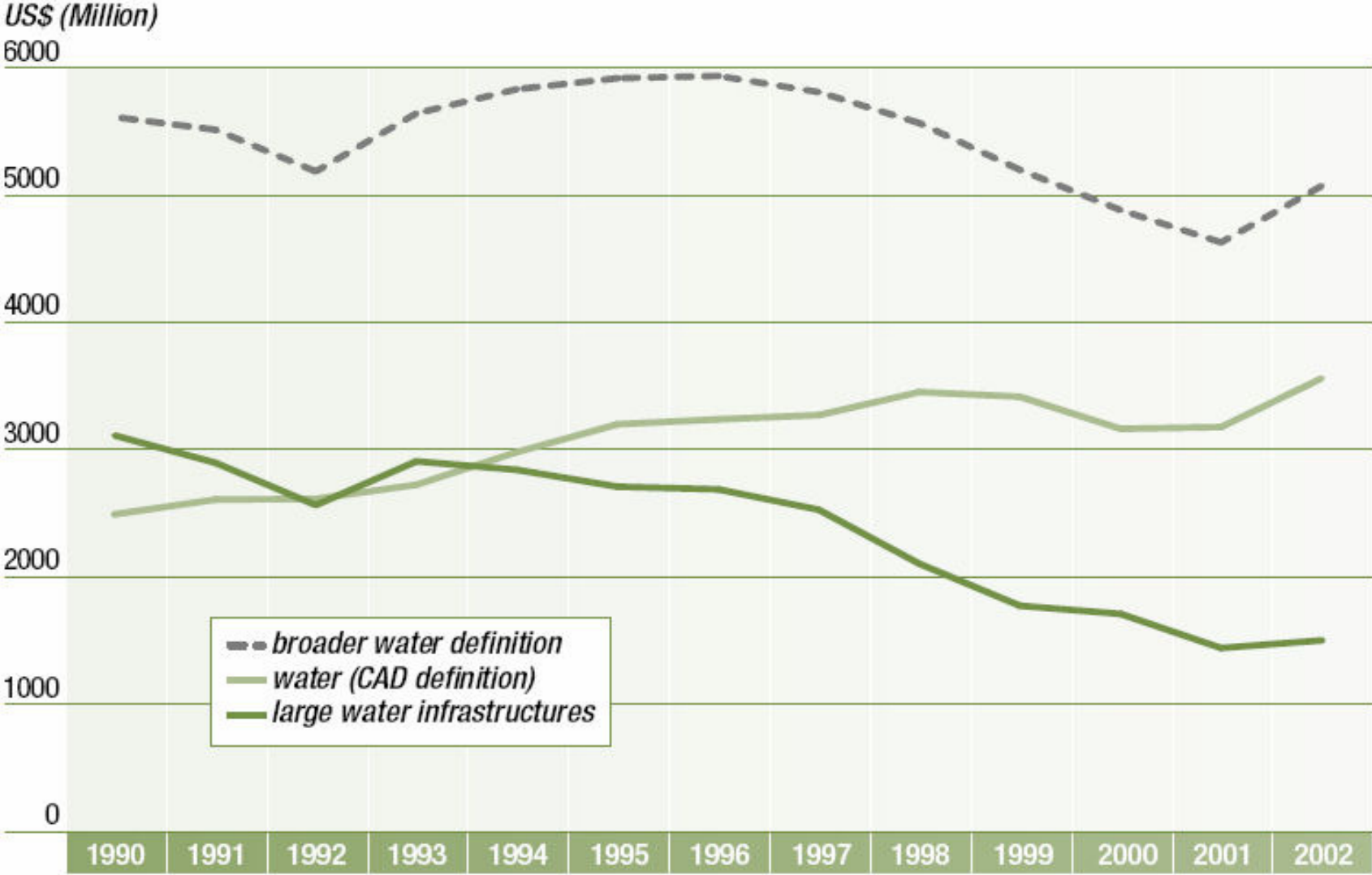
- User charges
- Environmental charges
- Grants
- Loans
- Mixed credits and export funds
- Output based aid
- Micro-finance
- Bond markets
- Equity markets
- Direct private Investment
- Public private partnerships and private finance initiatives
- Voluntary finance schemes
- Sector wide approaches and sectoral funds

# **Monterrey Consensus—International Financial and Technical Cooperation for Development** *(key commitments) (2002)*

- Make concrete efforts to substantially increase ODA and other resources, particularly to least developed countries;
- Enhance recipient country ownership of development frameworks and program design;
- Harmonize operational procedures at the highest standards;
- Promote the use of ODA to leverage additional financing; and
- Support efforts to improve aid's impact and effectiveness such as untying aid.

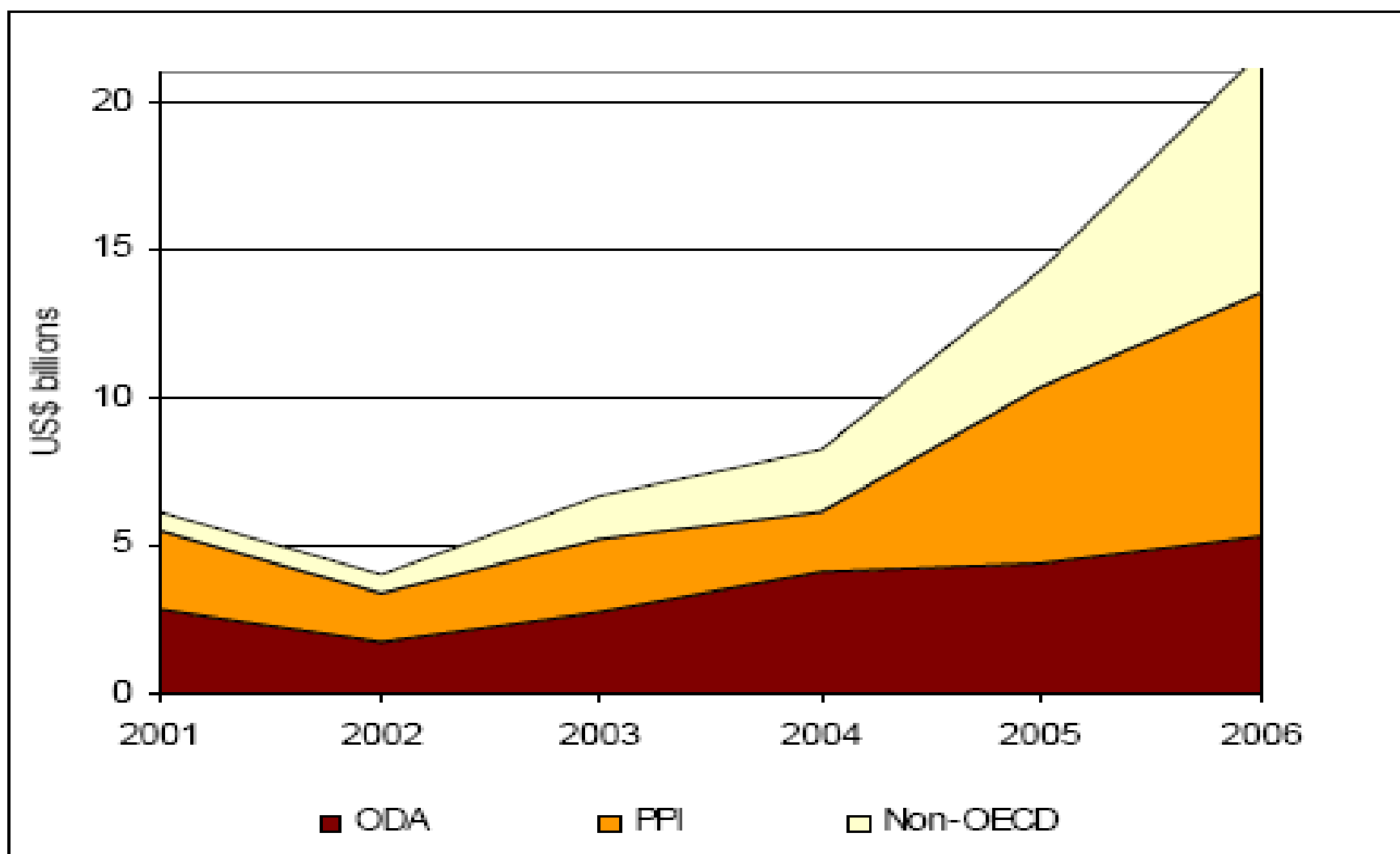


**Figure 7 - ODA for water, ODA for large water infrastructure and “broader ODA for water” commitments (2003 constant dollars, 5-year moving averages)**



Source: WWC, Official ODA, 2006

# EXTERNAL INFRASTRUCTURE FINANCE IN SUB-SAHARAN AFRICA, 2001–2006



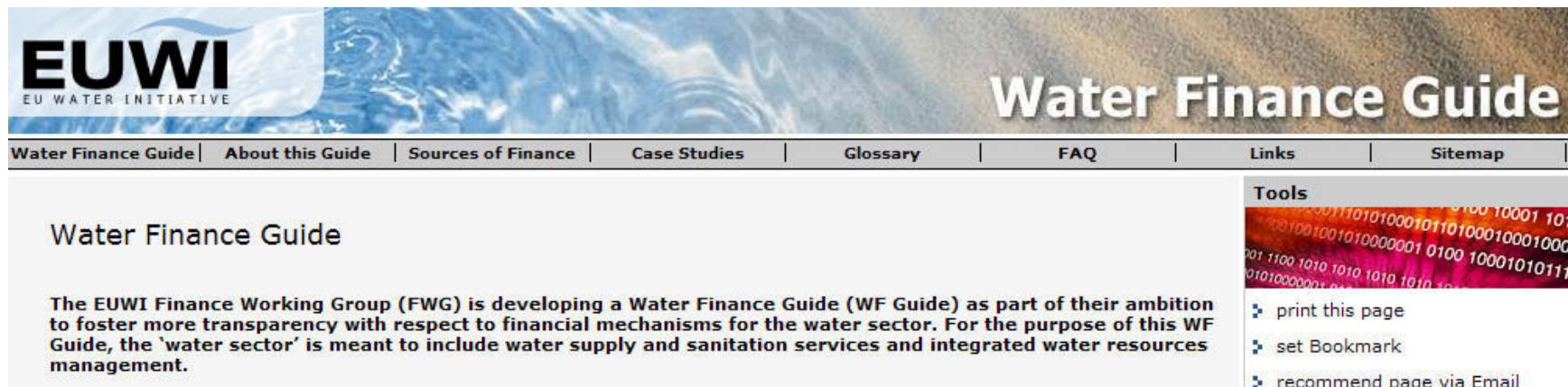
Source: World Bank: Building Bridges: China's Growing Role as Infrastructure Financier for Sub-saharan Africa. Trends and Policy Options. No.5. 2008

# INTERNATIONAL CONSORTIUM FOR AFRICA (ICA) Financial Products User Guide

- This survey was commissioned by the Infrastructure Consortium for Africa (ICA), and funded by a grant from the Private-Public Infrastructure Advisory Facility (PPIAF)
- Contains details of relevant international financial institutions and their products
- [www.icafrica.org](http://www.icafrica.org).

# EU WATER INITIATIVE WATER FINANCE GUIDE

<http://financeguide.euwi.net/>



The screenshot shows the top portion of the EUWI Water Finance Guide website. On the left is the EUWI logo (EU WATER INITIATIVE) over a blue water splash background. To the right, the title "Water Finance Guide" is displayed in white text on a dark, textured background. Below the title is a horizontal navigation menu with the following items: "Water Finance Guide", "About this Guide", "Sources of Finance", "Case Studies", "Glossary", "FAQ", "Links", and "Sitemap".

**Water Finance Guide**

The EUWI Finance Working Group (FWG) is developing a Water Finance Guide (WF Guide) as part of their ambition to foster more transparency with respect to financial mechanisms for the water sector. For the purpose of this WF Guide, the 'water sector' is meant to include water supply and sanitation services and integrated water resources management.

**Tools**

- print this page
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# The NEPAD Infrastructure Project Preparation Facility (NEPAD-IPPF)

- The key objective of the NEPAD-IPPF is to assist African countries, Regional Economic Communities (RECs) and related infrastructure development institutions, to prepare high quality, viable regional **infrastructure projects** in energy, **trans-boundary water resource management**, transport, and ICTs, which would be ready to solicit financing from public and private sources in support of the objectives of NEPAD.
- A secondary objective of the NEPAD-IPPF, in relation to the objectives of NEPAD, **is to support the creation of an enabling environment of private participation in infrastructure** as well as support to targeted capacity building initiatives in infrastructure development to enhance the sustainability of existing and planned infrastructure in the continent. The NEPAD-IPPF will promote and facilitate the preparation of regional infrastructure projects and programmes that have been approved within the context of the NEPAD Infrastructure Program.

# KEY CONSTRAINTS ON FINANCING THE WATER SECTOR (Camdessus)(cont)

## 1. GOVERNANCE

## 2. SPECIFIC RISKS OF THE WATER SECTOR

- Project profile: capital intensity with high initial investment and long payback period
- Low sector rate of return
- Foreign exchange risk: mismatch between local currency earnings and foreign currency funding
- Sub-sovereign risk: responsibility with local entities lacking financial powers, resources & credit standing
- Risk of political pressure on contracts and tariffs and absent, weak and/or inconsistent regulation
- Contractual risk: projects of long duration entered into with poor initial information

# KEY CONSTRAINTS ON FINANCING THE WATER SECTOR (EU)

- Commercial Risk
- Political Risk and Governance Issues
- A Lack of Good Projects
- A Lack of National Capacity

# DDP CHALLENGES

- Providing a diversified mix of public, public-private and private investment mechanisms appropriate to the different economic and governance settings;
- Providing an expanded portfolio of interventions to meet the diverse needs in rural, peri-urban and urban settings;
- Improving governance in a broad sense including policy reforms, institutional reforms, regulatory reform and the engagement and involvement of the public as stakeholders.
- Establishing consensus within a country on investment priorities and balancing immediate needs with longer-term economic development aims.



# THE FIVE ULTIMATES

- Only beneficiaries, domestic tax-payers, foreign taxpayers and philanthropists pay;
- Financial institutions are risk-averse;
- Risk analysis is about the avoidance, mitigation, securitisation and assignment of risk or acceptance of a premium on the interest rate;
- The financing quest is to align the financing source with the storage dam project
- A financing package can only be concluded if the financing partner has confidence that project preparation adheres to the principles of good governance.

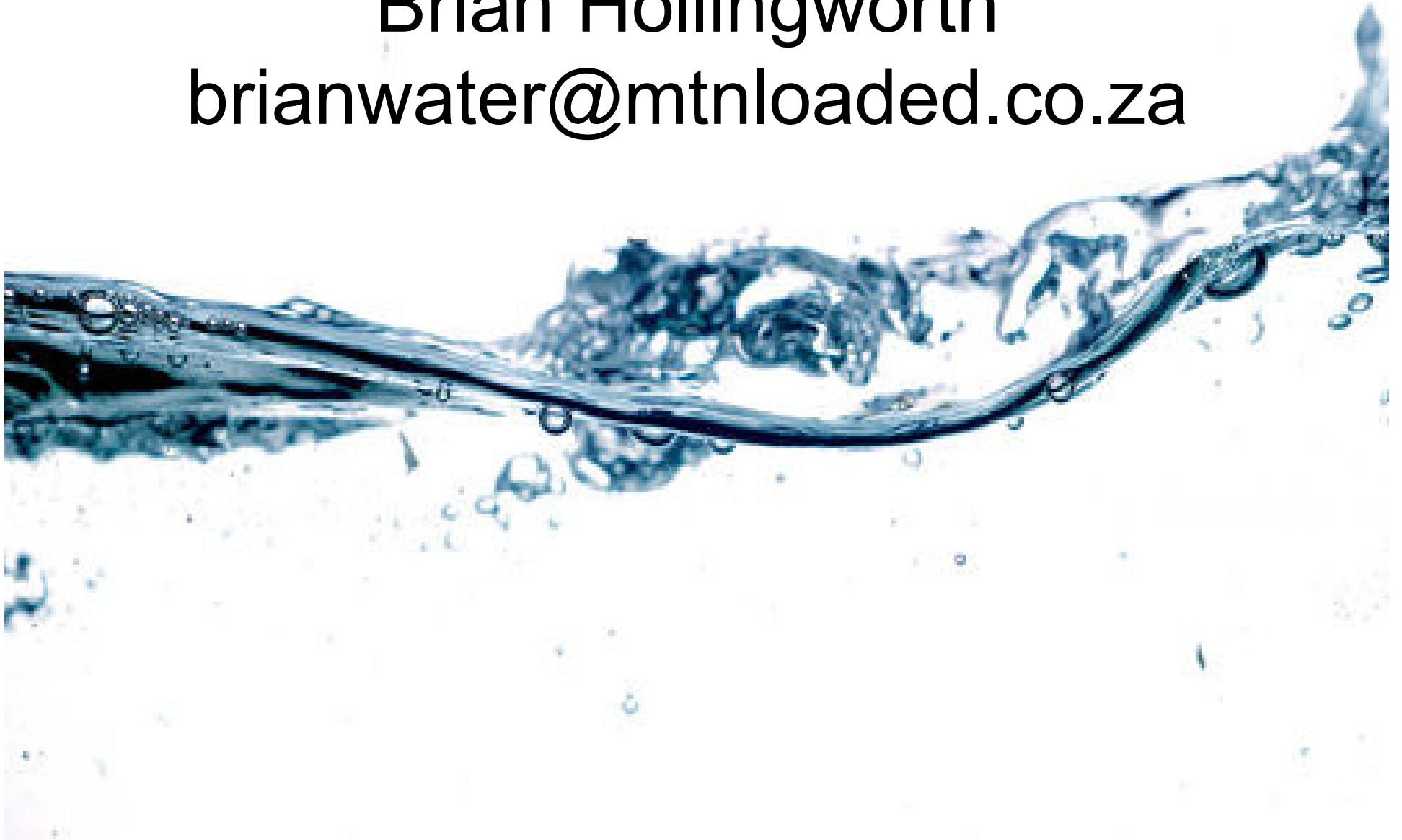
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**WHAT HAPPENS NEXT IS UP TO YOU  
JOIN THE DIALOGUE**

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## POSSIBLE QUESTIONS FOR THE DIALOGUE

- Is Nepad (STAP and MLTSF) promoting and guiding the development of storage dams?
- Has NEPAD-IPPF been used effectively for storage dams?
- Is private sector financing for storage dams illusory?
- What progress has been made since the WCD?
- Is the need for a enabling environment recognised and have there been advances? Is ICF active in relation to the storage dams sub-sector?
- What African lessons are to be learned from Mohale (Lesotho), Bujagali (Uganda), Busanga (DRCongo), Bui (Ghana), Kainji, Jebba and Shiroro (Nigeria) and others?
- Is poor governance hampering the implementation of storage dams?
- What more can be done to facilitate financing of storage dams in Africa?