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WORLD BANK GROUP



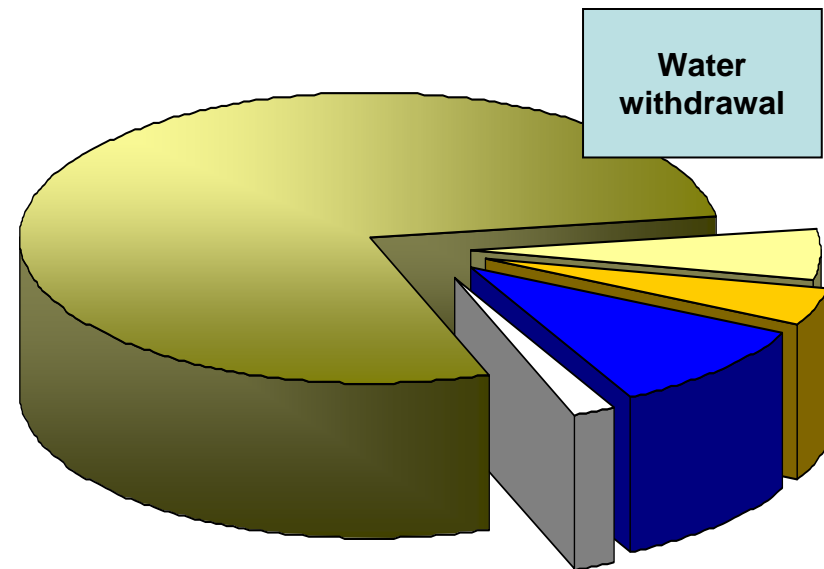
Financing Water

by

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State of the sector.... 1

- Limited resource, declining in some places, with rapidly increasing demand
- Unevenly distributed, poorly managed
- Main portion is allocated to, not necessarily used by, agriculture



■ Agriculture 78%	■ Municipal 6%
■ Industrial 4%	■ Environ. Flows 10%
□ Open water evap. 2%	

State of the sector..... 2

- Demand for water increasing exponentially due to:
 - Increase in population and urbanization
 - Rising food demand
 - Economic development leading to greater industrial and energy demand
- 95% of those without access in Asia and Africa
 - Access to sanitation is lagging behind
- Water storage a particular issue
- Direct impact on health and growth

State of the sector..... 3

- Supply of water declining because of:
 - Over-withdrawals by agriculture/industry/energy/domestic sectors due to inefficiencies
 - Poor water infrastructure
 - Poor water management
 - Environmental/ecosystems damage
- Deterioration in water quality (in large part due to poor sanitation and SW management)
- Impact of climate change –water scarcity/stress/natural disasters

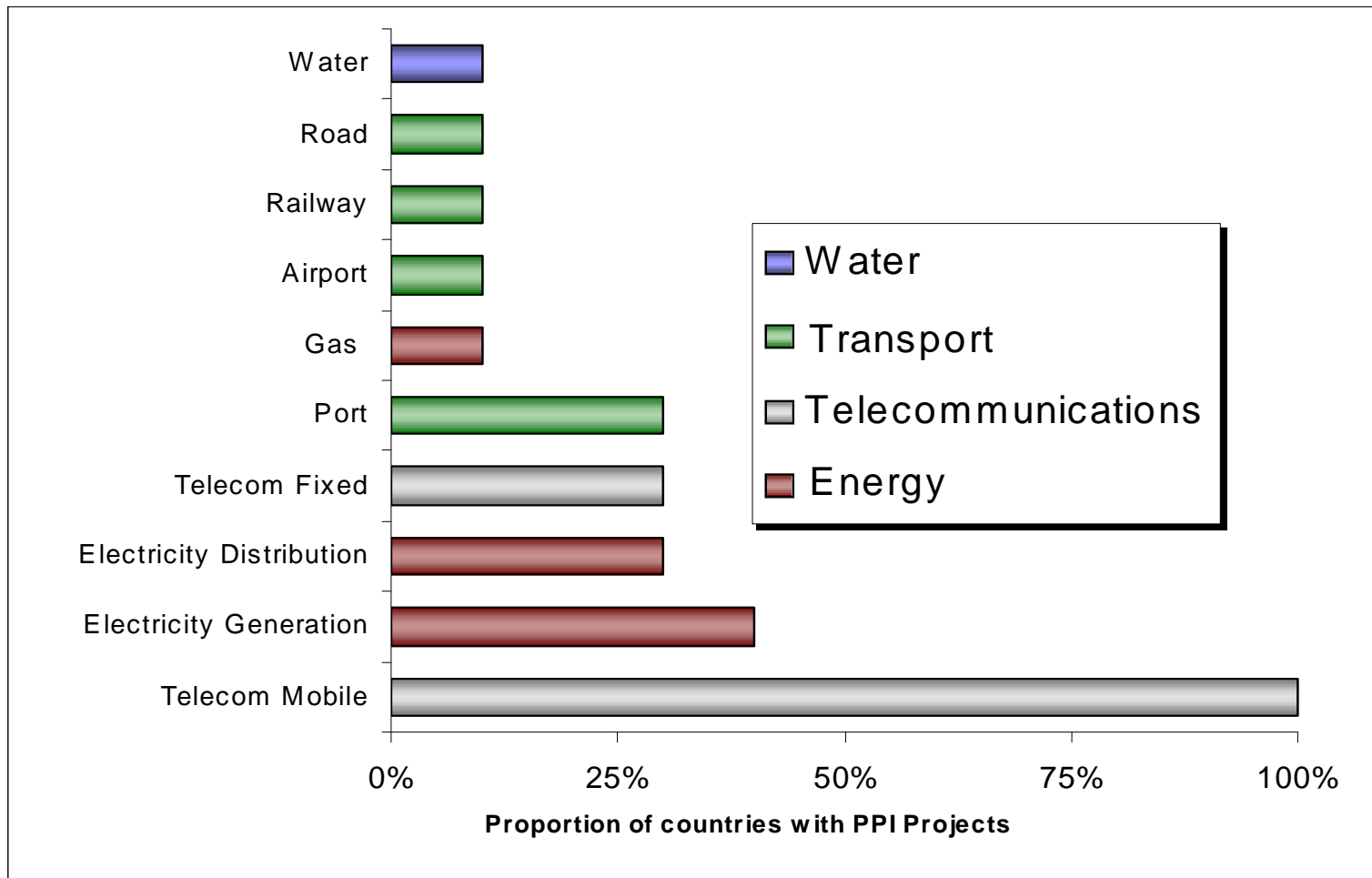
State of the sector..... 4

- Unconnected population pays 12 times more than connected users
- Main constraints: funding limitations, no cost recovery, inefficient operations, weak political will
 - Annual investment > \$100 billion, 15 years
 - Public funds limited: (i) fiscal space (ii) sub-national
 - Private investment only 5% of total - concessions virtually abandoned, little capex responsibility, creditworthy BOTs only

What is the issue with private participation?

- Politically sensitive tariffs – “profit is bad”
- Capital intensive, slow asset turnover requiring long-term finance
- Local and disaggregated resource
- Unreliable base line information
- Local currency revenues
- Sub-national and regulatory risks
- Higher than anticipated operating risks

Investor Interest: Uneven sectoral spread



Source: PPI Database, World Bank

Implications for private participation

- Public funds remain dominant and indispensable, but required infrastructure cannot be built without private participation
- Depoliticize tariffs - affordability, willingness to pay and cost recovery
- Smarter risk allocation between private investors, government and end-users
- Public money support to PPPs - managing the contingent liabilities
- Building adequate institutional and regulatory capacities
- Support to emerging local/regional investors with greater appetite for local risk

Implications for private participation2

- Need for long-term, local currency debt
- Need for mezzanine debt to support new equity sources
- Equity availability growing (PE/infrastructure funds), but political risk issues
- Output Based Aid can be critical mitigator of “affordability” concerns
- Sub-national financing to strengthen municipal/local entities
- Advisory/project development facilities for promising projects

Areas of IFC Engagement

- Demand Management
- Supply Management
- Waste/Environmental Management
- Climate Change Adaptation Strategies

Areas of IFC Engagement ... 2

- Engage in countries with political will to bring in private sector
 - Local currency availability including local long-term debt and equity
 - Guarantees
 - Enter where regulation may still be evolving
 - OBA
- Early participation in PPPs
- Leverage investment through IFC/WB advisory services
- Scale up support to local/regional operators
- Engage with industry in providing captive W&S solutions where needed
- Water storage and conveyance to mitigate locational imbalances
- New water technologies
- New water platform – multi-use facilities
- Wholesaling through financial intermediaries