

## World Water Week 2008 Side Event

### World Bank Water & Sanitation Program – UNEP Finance Initiative

*Becoming Bankable: Experiences and Challenges in Market-Based Finance in the Water Sector*

#### **Background**

Most Governments of the world and Intergovernmental Institutions have envisaged achieving the Millennium Development Goals by 2015. MDG Nr. 7 consists in “ensuring environmental sustainability” and comprises a strong water-related component: Target 10 consists

*in halving, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation.*

Furthermore, the World Panel on Financing Water Infrastructure has become convinced that

*water is one of the most important issues in the world today and that the achievement of water security would do more for poverty, development and the other Millennium Development Goals (MDGs) than almost any other conceivable actions.*

In order to achieve MDG7, until 2015 an additional 1.5 billion people will have to be provided with water-supply- and 2 billion people with basic-sanitation-facilities relative to 2000 levels. Meeting these targets and the shortfalls stemming from exploding global urbanization will require overcoming a funding gap of about USD 10 to USD 25 billion per year, which represents 70% to 175% of current annual water investment. In order to overcome this deficit, finance will have to be drawn from all sources – water authorities, through sustainable tariffs, from multilateral financial institutions, from governments, from public development aid and from capital markets and private sector financial intermediaries.

However, commercial lending and private investment in the water of developing countries have actually declined in recent years, especially due to deterring sector-specific risks:

- Project profile: capital intensive with high initial investment and long payback period.
- Low rate of return.
- Foreign exchange risk: mismatch between revenues in local currency and finance in foreign currency.
- Sub-sovereign risk: decentralized water agencies with service responsibility but lacking financial resources and credit standing.
- Risk of political pressure on contracts and tariffs, with weak and inconsistent regulation.
- Contractual risk: projects of long duration entered into on the basis of poor initial information.

At the same time, from the perspective of an investor or lender, increasing water scarcity and the challenge of ensuring a sustainable water future, present high potentials for growth and business opportunities, both in developed and developing countries: the water industry (infrastructure + water technologies) is already the fastest growing industry and one of the three largest industries, together with oil, gas and electricity. The drivers behind this growth are: a quickly increasing world population and economic growth, migration from rural to urban areas, the privatization of government-owned water companies, and the growing trend of outsourcing specific activities, such as contract management operations and services.

## Content

The WSP / UNEP FI side event will bring together water service providers and utilities with water financiers (from both small-scale water funds, project finance and capital market institutions) to discuss progress in accessing market-based finance. The session will share experiences from different parts of the world on how to successfully leverage market-based finance for sustainable water solutions and deliver indicative answers to the following questions:

- What are the promising approaches: emerging technologies, new public-private business models, innovative financial engineering (such as sub-sovereign-finance approaches), results-oriented regulatory reforms, etc.?
- How have the above risks/barriers been successfully managed/overcome in the past and are the experiences made and lessons learnt 'applicable' in other future contexts? In other words: can these successful projects serve as a design template for future undertakings?

At the same time, the overarching theme around Target 10 is environmental sustainability (MDG7). The overall challenge does hence not only consist in channeling sufficient private sector funds into water activities, but especially in doing so while taking into account environmental and social issues.

### Logical Structure of Event: "2 sides of a coin"

#### 1. **2 to 4 'Frontal' Case Study Presentations** (approx. 45 mins)

- Private finance and investment have a great potential to become large sources of funding for water projects that enable a better access to safe drinking water and basic sanitation.

##### **2 frontal presentations by water project developers**

How are water project developers in different parts of the (especially non-OECD) world achieving to tap this source? What makes a water project bankable? Is bankability compatible with environmental sustainability and social inclusivity? Examples?

- Investing in water has become a new strategic business opportunity for the finance sector and capital market actors.

##### **1 frontal presentation by water project/company/authority financiers**

How are financiers and investors developing activities in the water sectors of (especially non-OECD) countries? What makes a water project/company/authority bankable? Is bankability compatible with environmental sustainability and social inclusivity? Examples?

#### 2. **Moderated High-Level Panel Discussion on Specific 'Bankability-Sustainability' Issues** (approx. 60 mins)

- Could the previously presented approaches, models and instruments be scaled-up throughout other geographies and project types?
- What is the role of private financial intermediaries and capital markets in the water sector? Where and how can they already get active, where do they have to wait/push/cooperate for regulatory frameworks to develop further?
- What means sustainability in the water sector (especially in water infrastructure)? What are water-related sustainability issues and exemplary criteria and indicators?
- Discussing the above identified barriers / risks and potential solutions.