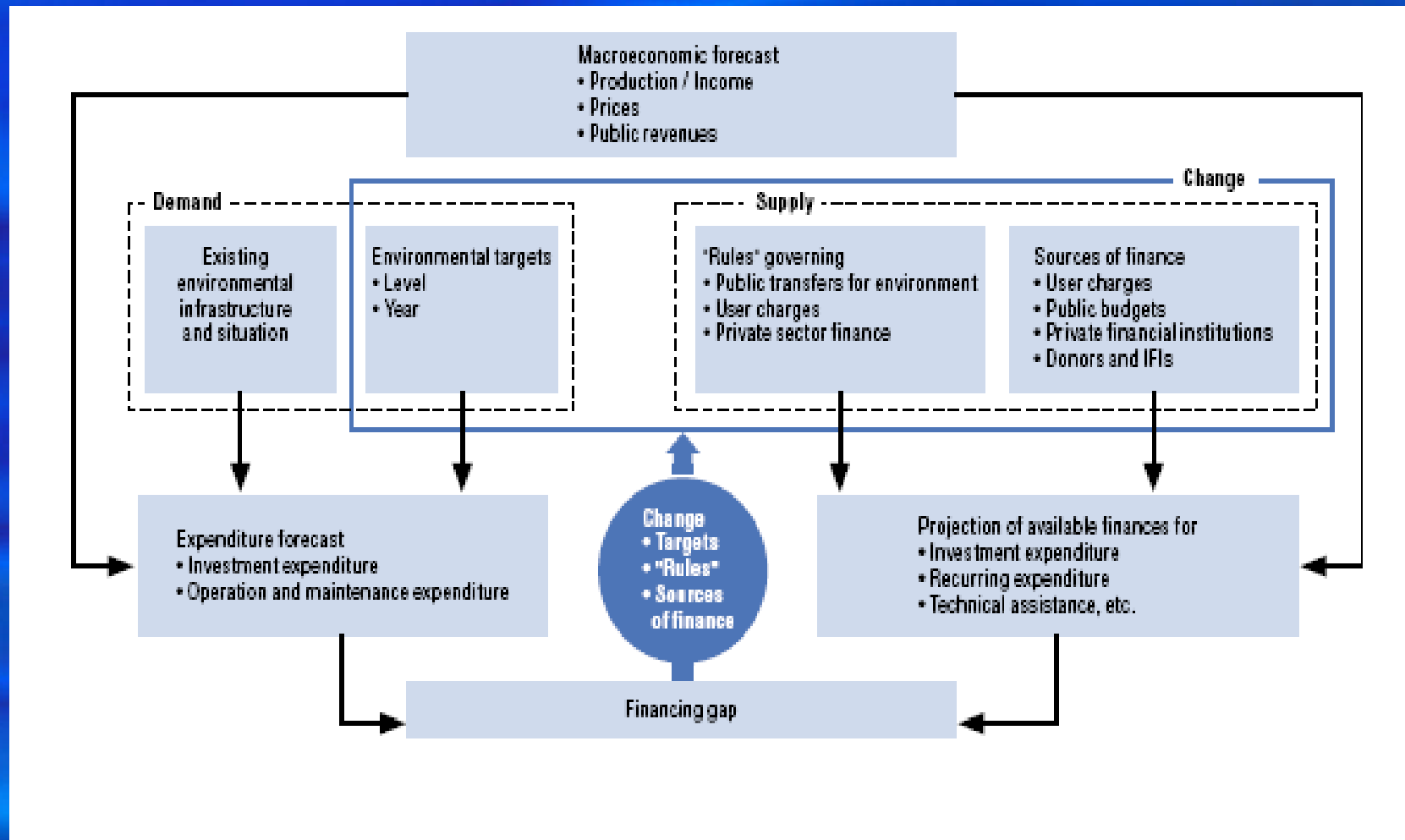


Sources and arrangements for finance

- Financial planning (graph 1)
 - Needs, financing gaps, alternative investments/policies
- Only three sources: ratepayers, taxpayers, ODA
- Public finance:
 - Public utilities, development banks and funds...
- Private finance: ratepayers and taxpayers
 - Capture efficiency of the private sector, lack of fiscal space to invest, technology transfer, lack of institutional capacity. Value for money
- Keep all financial options open (incl. CSR)

FEASIBLE model



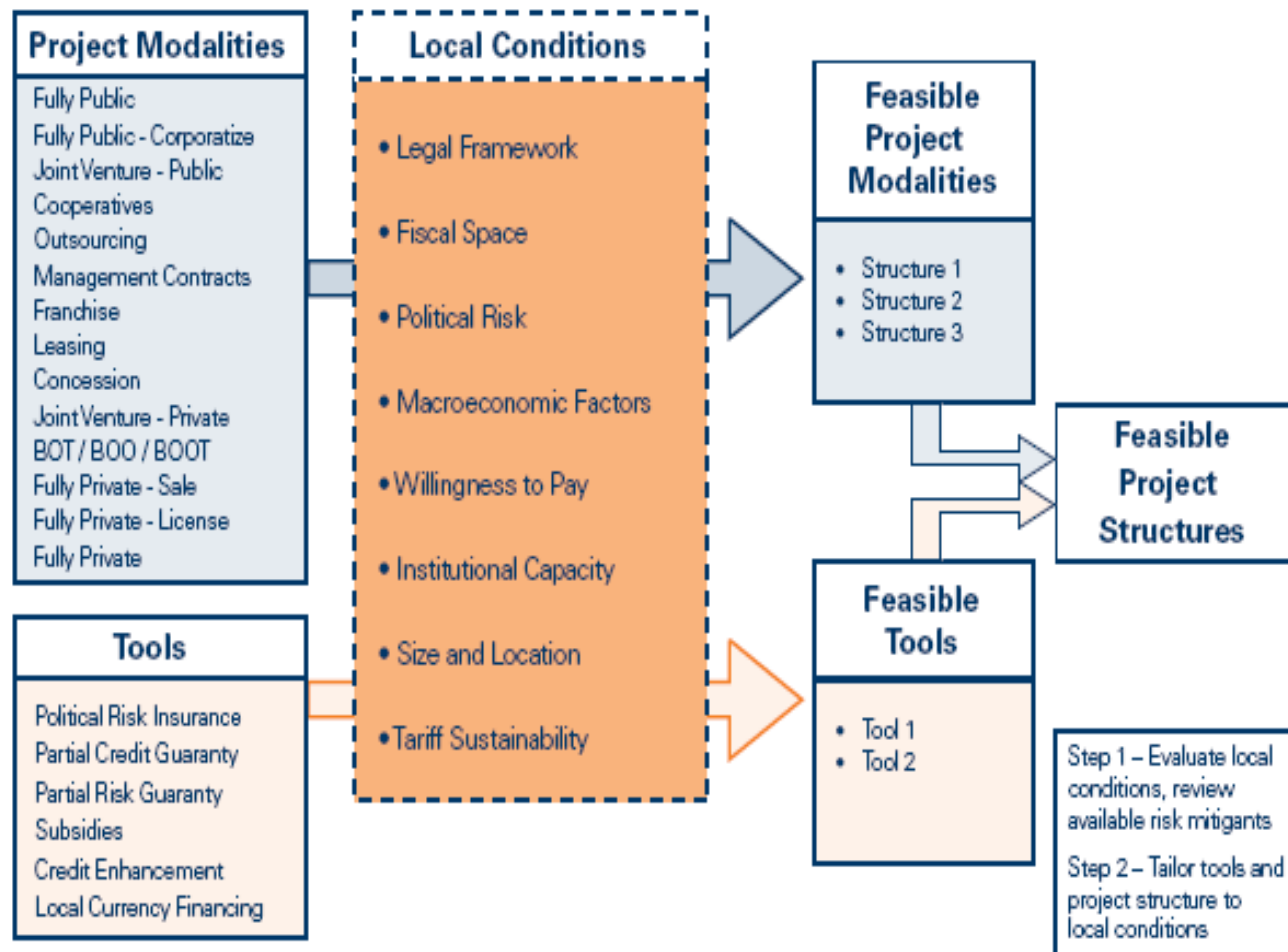
ODA for water: Selective uses

- Latest figures, about \$4.5 billion (4-5% of ODA)
- Pity to use ODA for investment in physical assets
- Grants better used for:
 - Institutional (local) strengthening, project management, creditworthiness, education, efficiency
 - Water and financial sector reform
 - Targeted tariff subsidies
 - Project preparation facilities
 - Leverage other funds (guarantees, reserve accounts, rate subsidies, risk mitigation: devaluation)

Financial Structuring

- Right structures can increase the number of bankable projects, attract investments, reduce backlash from failures and enhance the long term viability of projects ([graph 2](#))
- Poor choice of modalities of service provision are major causes of failure
- Structures must be adapted to local prevailing conditions (legal and regulatory, fiscal space, macro conditions, political risk, willingness to pay....)
- In developing countries, structures are complex

Financial Structuring



Risk Mitigation

- Existence of risk mitigation tools can enhance availability and return of investments
- Commercial and Financial risks and mitigation
 - Revenue/costs risks, currency depreciation facilities
 - Refinancing risk
 - Foreign exchange exposure (currency depreciation)
 - Partial risk and partial credit guarantees and insurance (total: monoline)
 - Local finance (institutional investors)
 - Project pooling

Risk Mitigation

- Political risks
 - Currency convertibility, expropriation, acts of war, breach of contract, arbitration award default
 - Policy risks (creeping expropriation)
 - Rates (inflation), contractual obligations (termination payments, off-take payments, subsidies), coverage, guarantees, taxes, devaluation.....
- But water is politically charged and even near perfect certainty is impossible

The way forward

- Need to pay attention to economic and financial realities and reduce political interference
- Good policies and management are as scarce and valuable as financing
- Allocation of water rights, proper pricing.
- Cross subsidies through tariffs and taxation
- Increase economic, technical, managerial, financial and sectoral efficiency
- Enhance the business environment
- Explore all options in terms of modalities of service provision and financial sources and structures

THE MESSAGE

- WATER finance goes well beyond financial instruments and financial resources.
- The problem of water finance is not (only) a finance problem
- Water finance must be seen in broader context of risk reduction through:
 - Good projects
 - Good management
 - Good governance
 - Good politics.....

.... and good luck!

WATER FINANCE:

More than financing water projects

Week 7: Water Economics and Financing
Day 5: Water Financing

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Expo Zaragoza



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