

# Leading the transition to commercial finance in water

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New Delhi  
November 17, 2023



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# Introduction

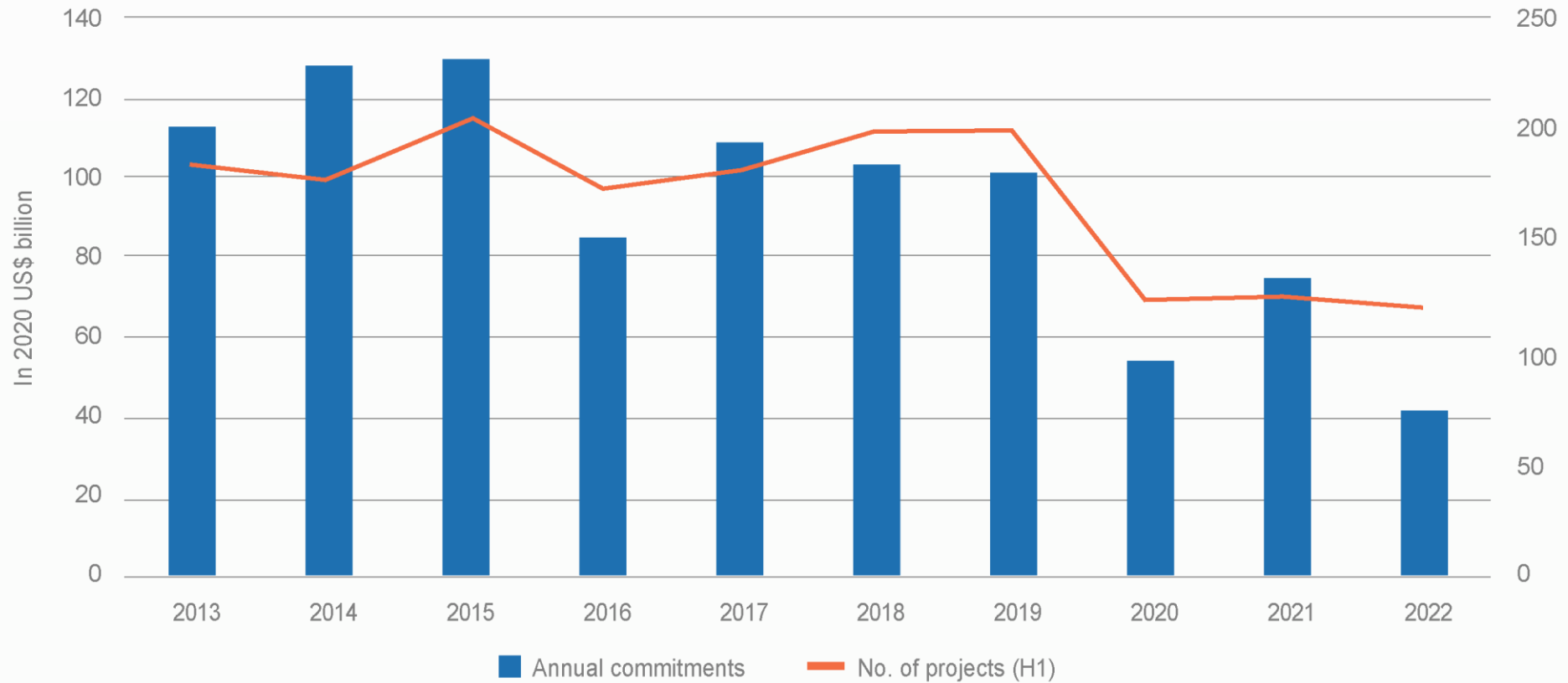


# Water affects nearly all the SDGs

 <p>TRANSFORMING OUR WORLD: THE 2030 AGENDA FOR SUSTAINABLE DEVELOPMENT</p>	<b>1</b> NO POVERTY 	<b>2</b> ZERO HUNGER 	<b>3</b> GOOD HEALTH AND WELL-BEING 	<b>4</b> QUALITY EDUCATION 	<b>5</b> GENDER EQUALITY 
<b>6</b> CLEAN WATER AND SANITATION 	<b>7</b> AFFORDABLE AND CLEAN ENERGY 	<b>8</b> DECENT WORK AND ECONOMIC GROWTH 	<b>9</b> INDUSTRY, INNOVATION AND INFRASTRUCTURE 	<b>10</b> REDUCED INEQUALITIES 	<b>11</b> SUSTAINABLE CITIES AND COMMUNITIES 
<b>12</b> RESPONSIBLE CONSUMPTION AND PRODUCTION 	<b>13</b> CLIMATE ACTION 	<b>14</b> LIFE BELOW WATER 	<b>15</b> LIFE ON LAND 	<b>16</b> PEACE, JUSTICE AND STRONG INSTITUTIONS 	<b>17</b> PARTNERSHIPS FOR THE GOALS 
<b>SUSTAINABLE DEVELOPMENT GOAL 6</b> Ensure availability and sustainable management of water and sanitation for all					

# Private investment in infrastructure has been declining...

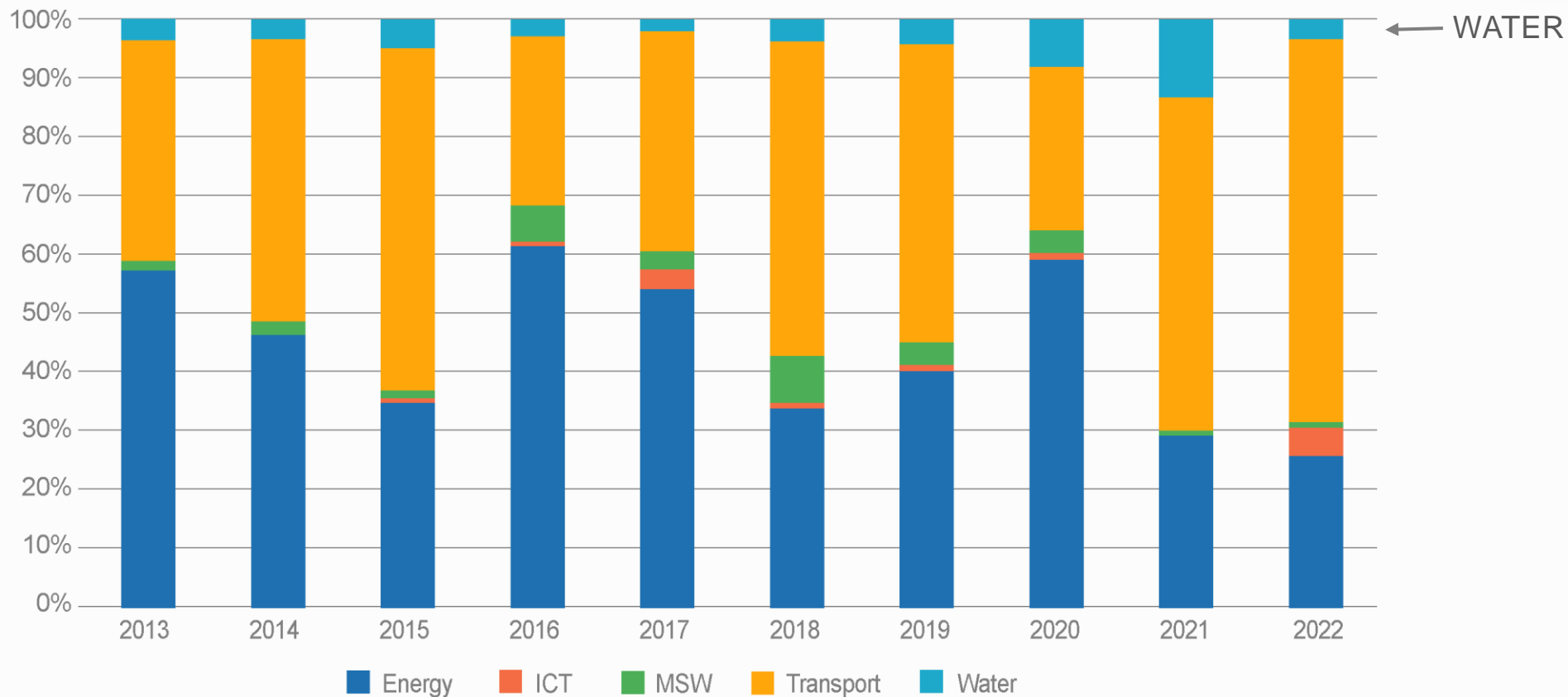
Investment commitments in infrastructure projects with private participation in low- and mid-income countries, 2013–H1 2022



Source: Private Participation in Infrastructure (PPI) 2022 Half Year (H1) Report

# ... And water's share of investment is a drop in the bucket

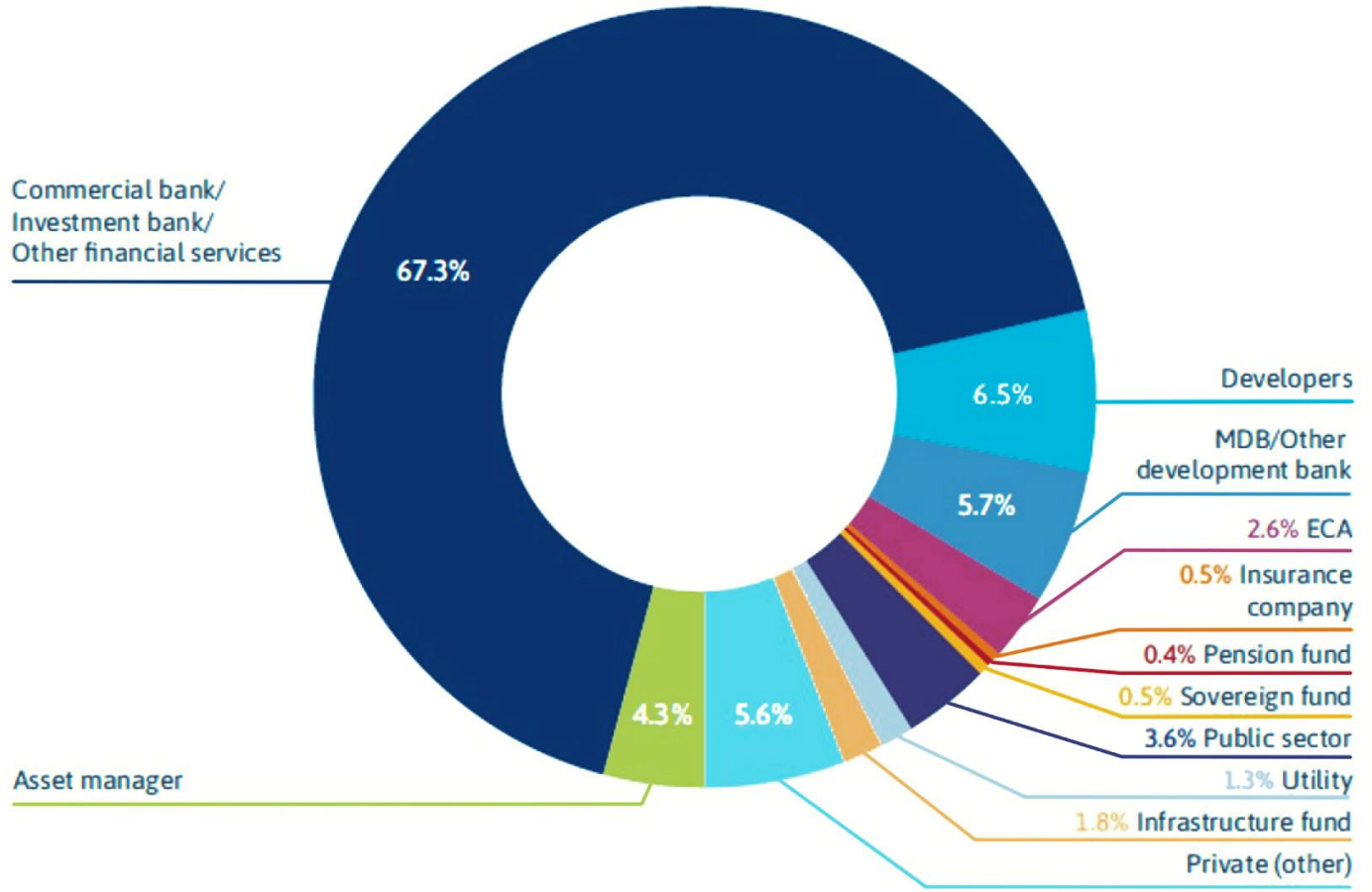
Share of sectoral investment commitments in infrastructure projects with private participation in low- and mid-income countries



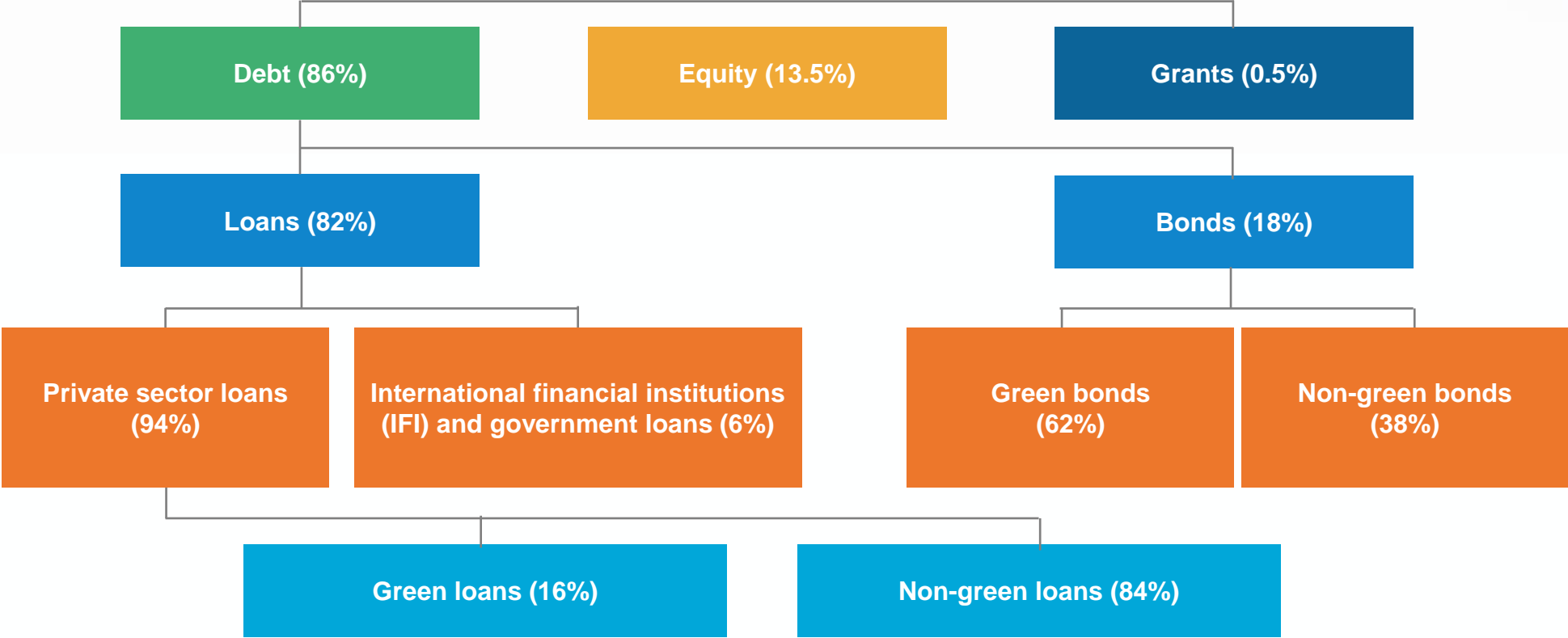
Source: WORLD BANK. PRIVATE PARTICIPATION IN INFRASTRUCTURE (PPI) 2022 HALF YEAR (H1) REPORT

# Private investment in infrastructure by source (2021)

Commercial banks lead the way, followed by developers and multilateral development banks.



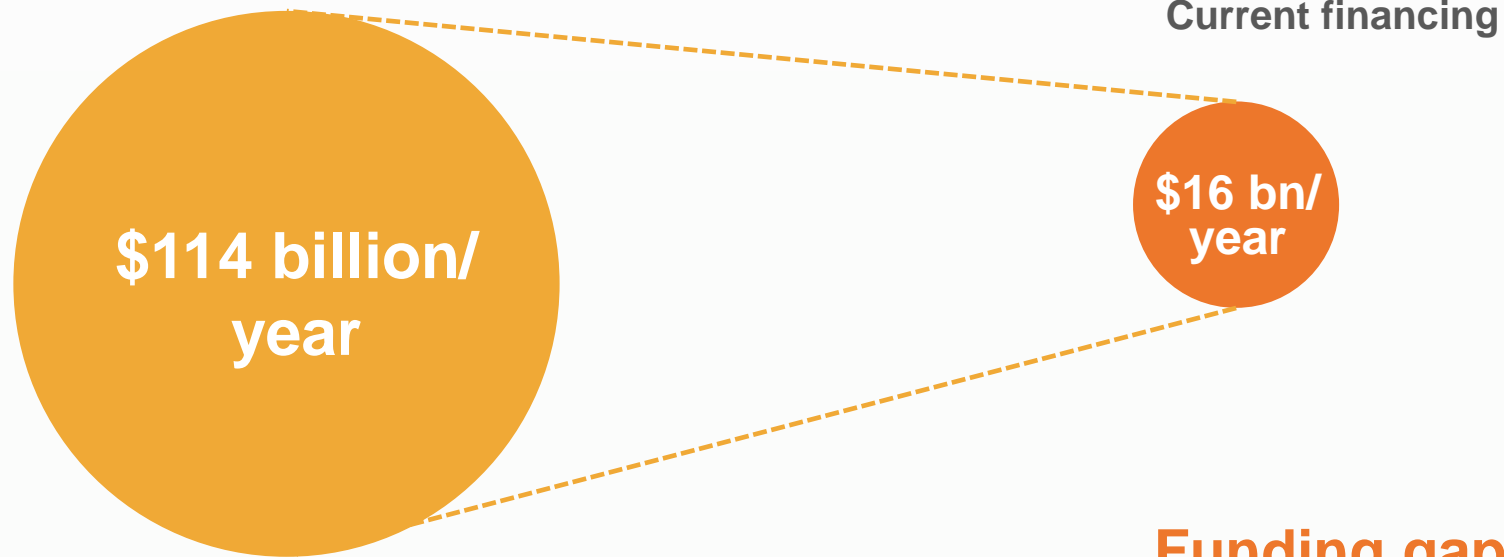
# Private investment in infrastructure by instrument (2021)



Source: Global Infrastructure Hub. 2022. *Infrastructure Monitor 2022: Global Trends in Private Investment in Infrastructure*

# Universal access to WSS requires massive investment increase

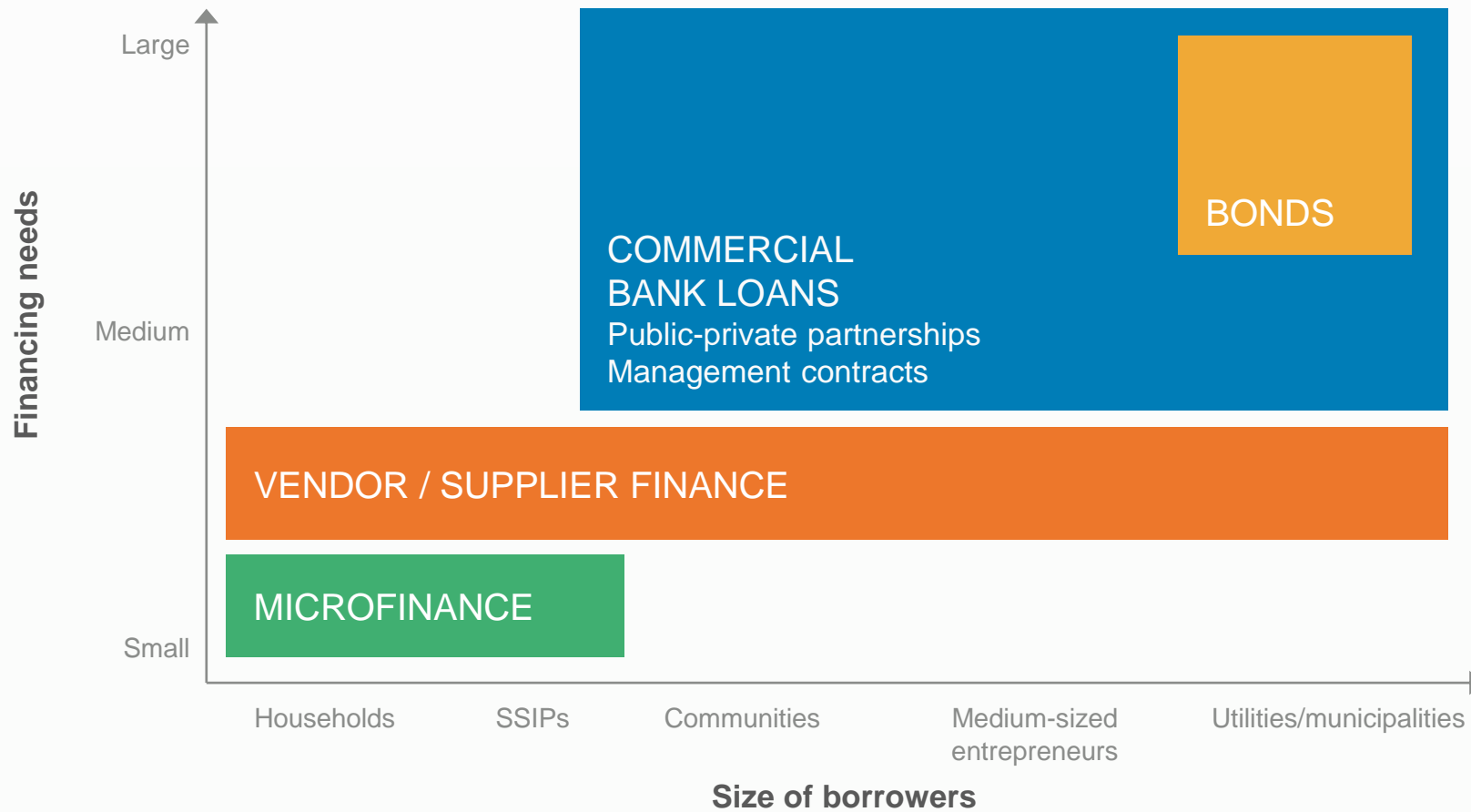
Total capital investment needed for WASH



- Shortfall for irrigation and WRM is thought to be larger
- Includes public, private, and donor financing



# Commercial financing can support an investment continuum across the water sector



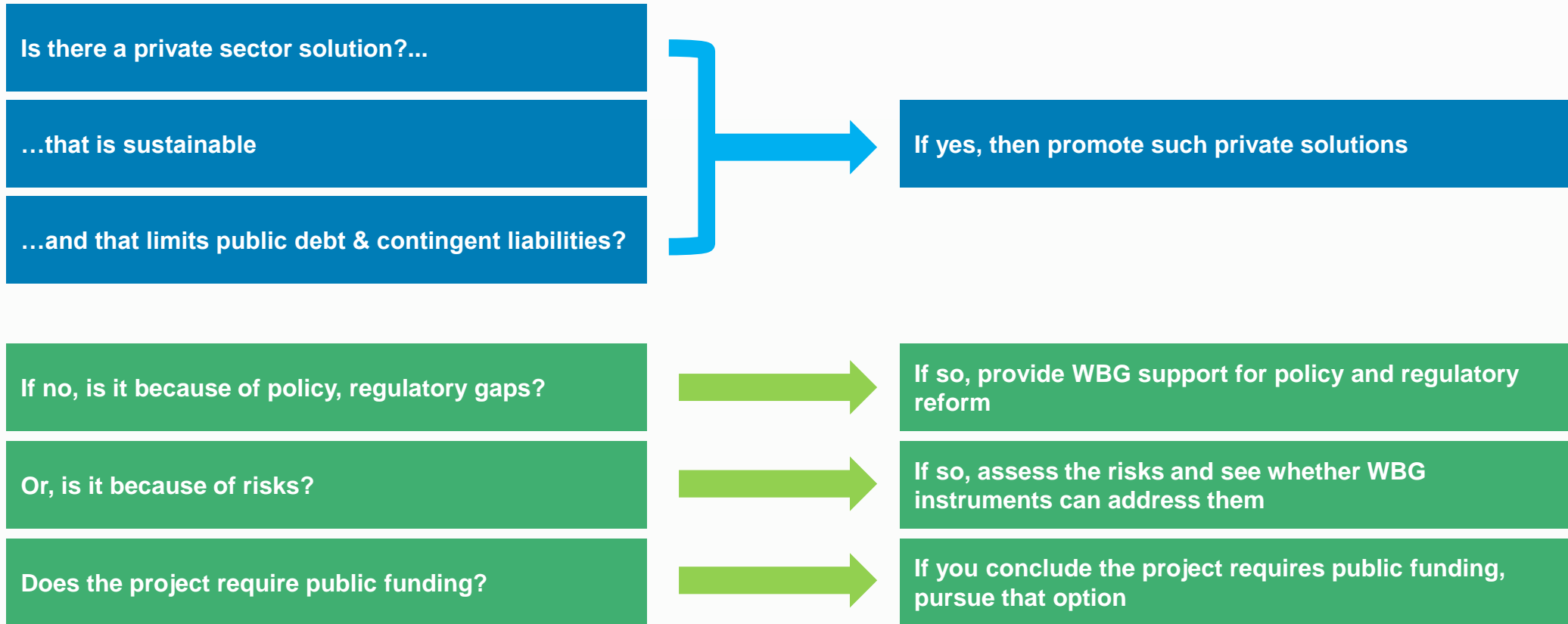


# The path to commercial finance in water and sanitation

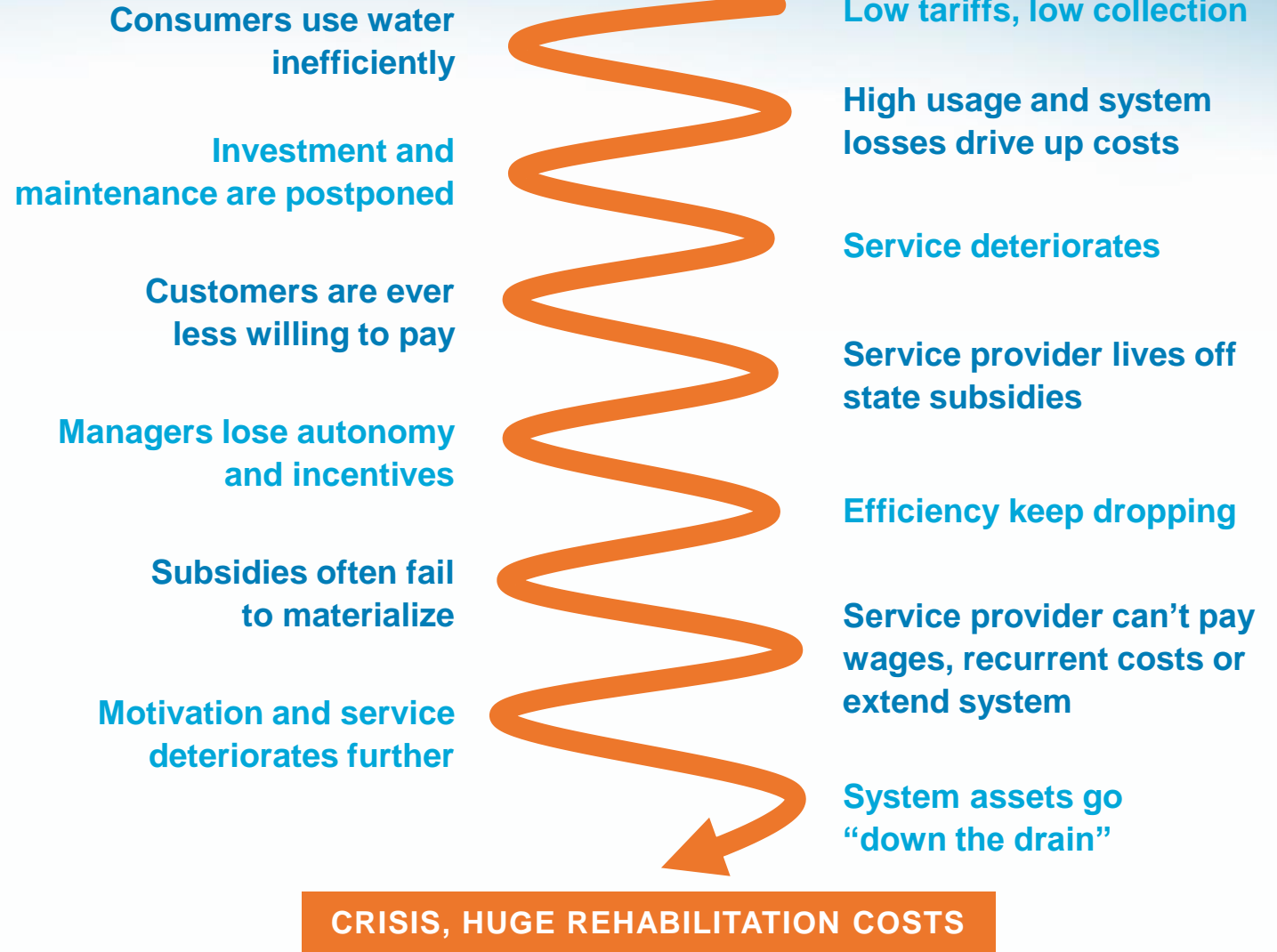


# Our approach to mobilizing finance for development

WHEN A PROJECT IS PRESENTED, ASK THESE QUESTIONS:

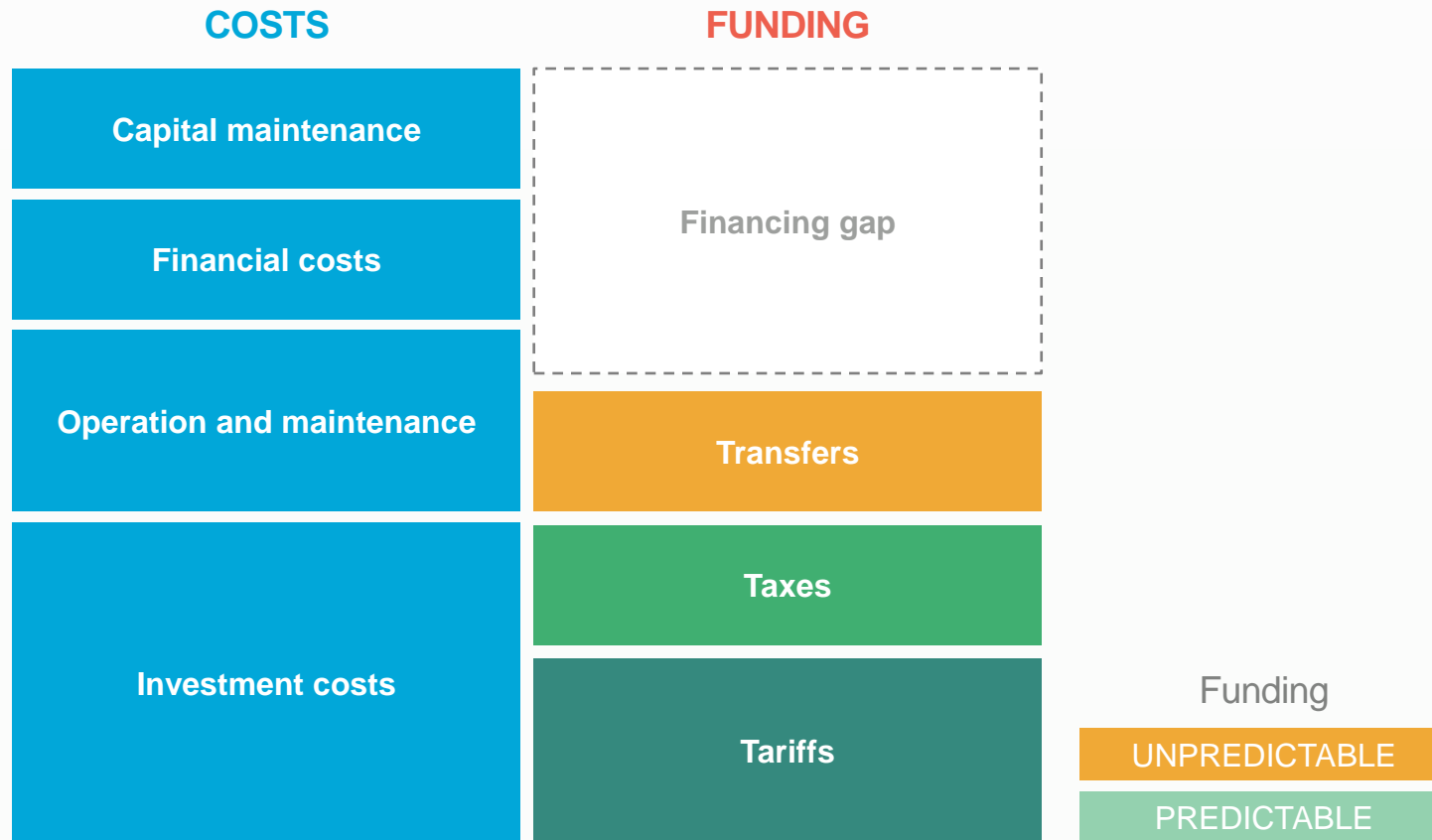


# SLIPPERY SLOPE: The implications of inadequate financing



# Public finance is critical but insufficient for water

## WATER SERVICE PROVIDER'S FINANCES

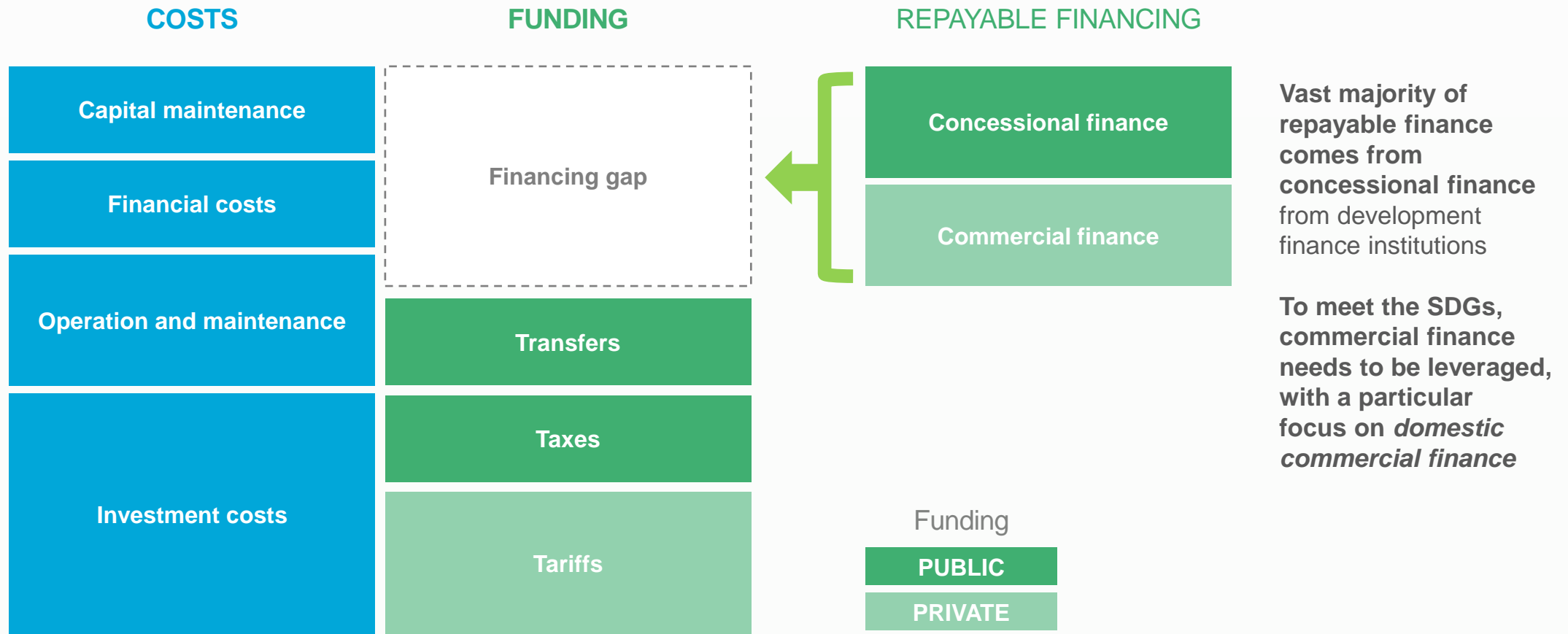


Why use taxes (public finance), not direct user payments (tariffs)?

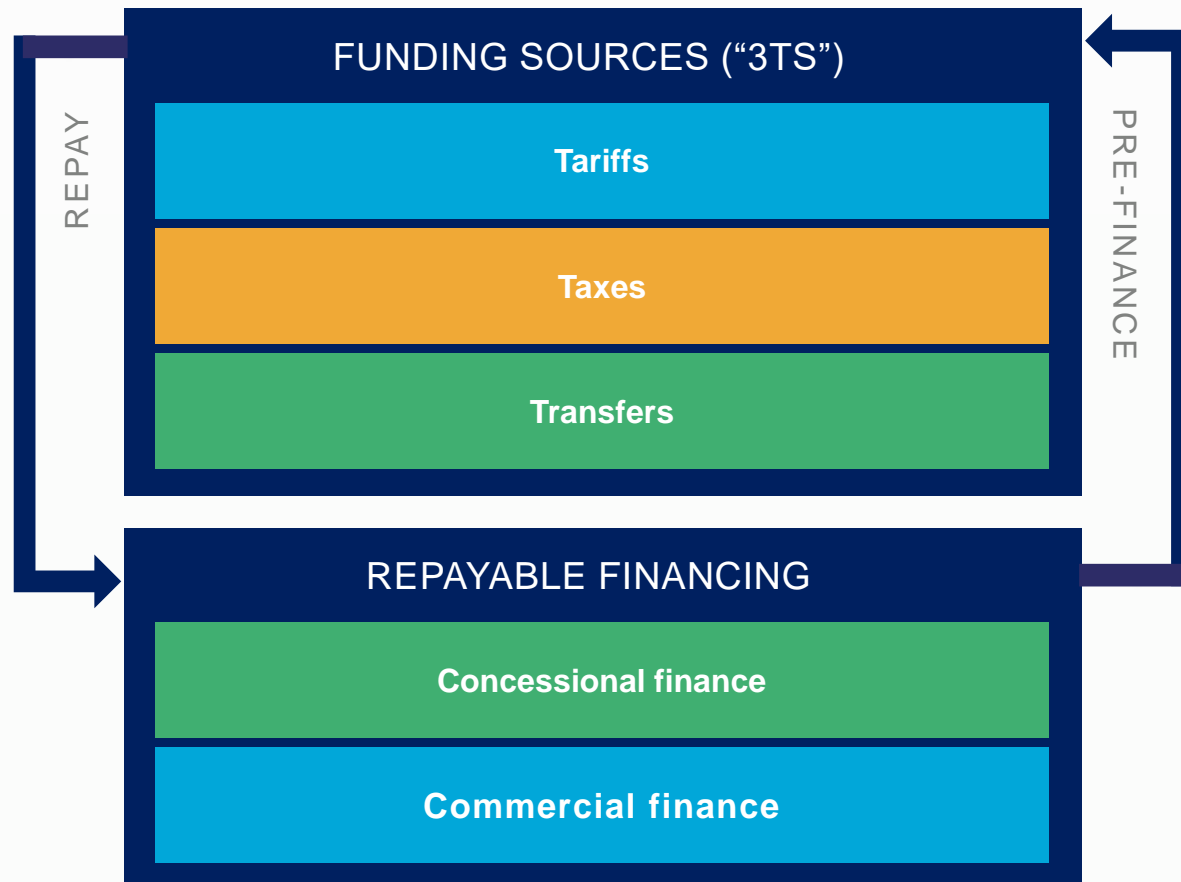
- Reluctance to charge the full operational costs to users
- Willingness to pay is low, especially for sanitation
- Affordability concerns for the poor
- Proof of government commitment to enhancing financial sustainability

# Commercial finance needed to fill gap left by taxes & tariffs

## WATER SERVICE PROVIDER'S FINANCES



# A sustainable mix for water: funding and financing



## TWO KEY AREAS OF FOCUS

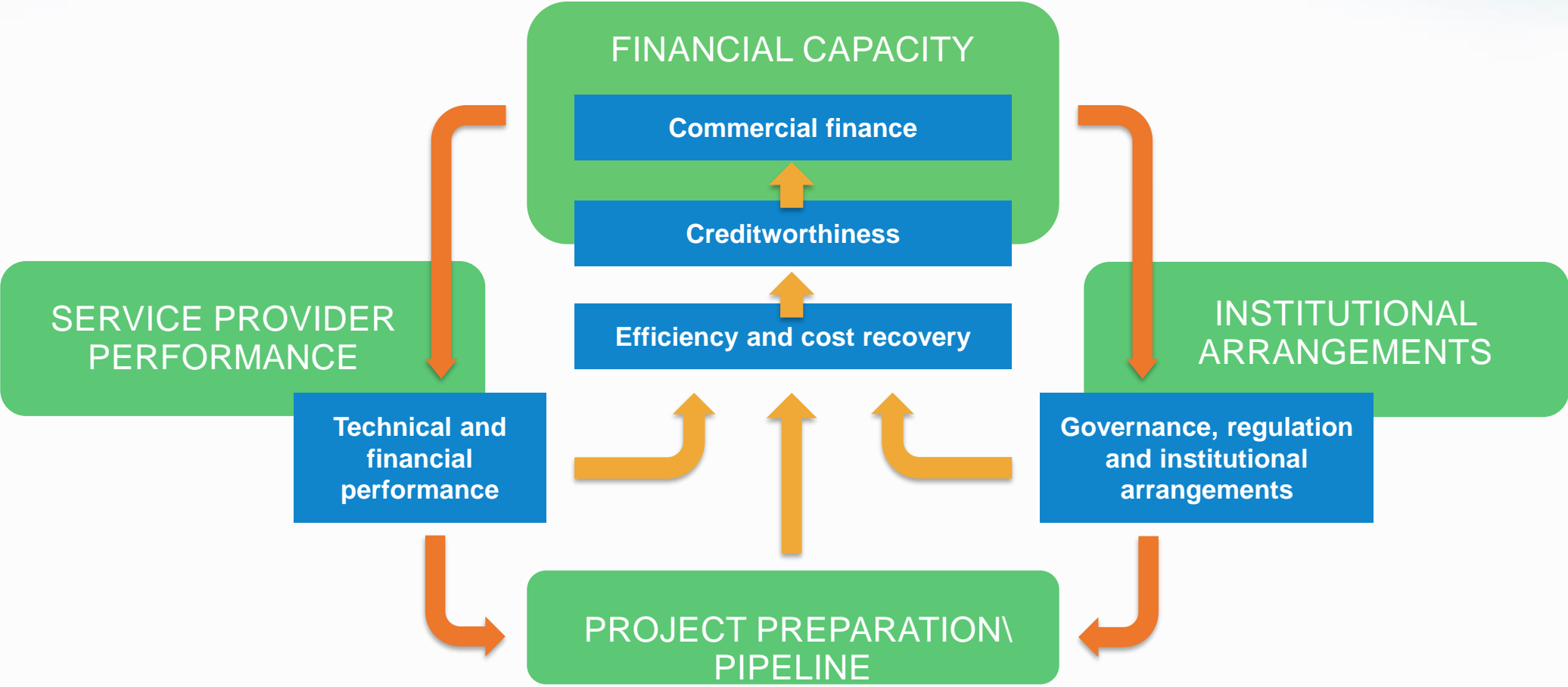
### 1. Use existing resources more effectively

- Reap efficiency gains to reduce costs and associated financing requirements
- Increase and improve allocation of domestic funding sources (tariffs and taxes)
- Improve the effectiveness and allocation of international transfers

### 2. Mobilize new financial resources

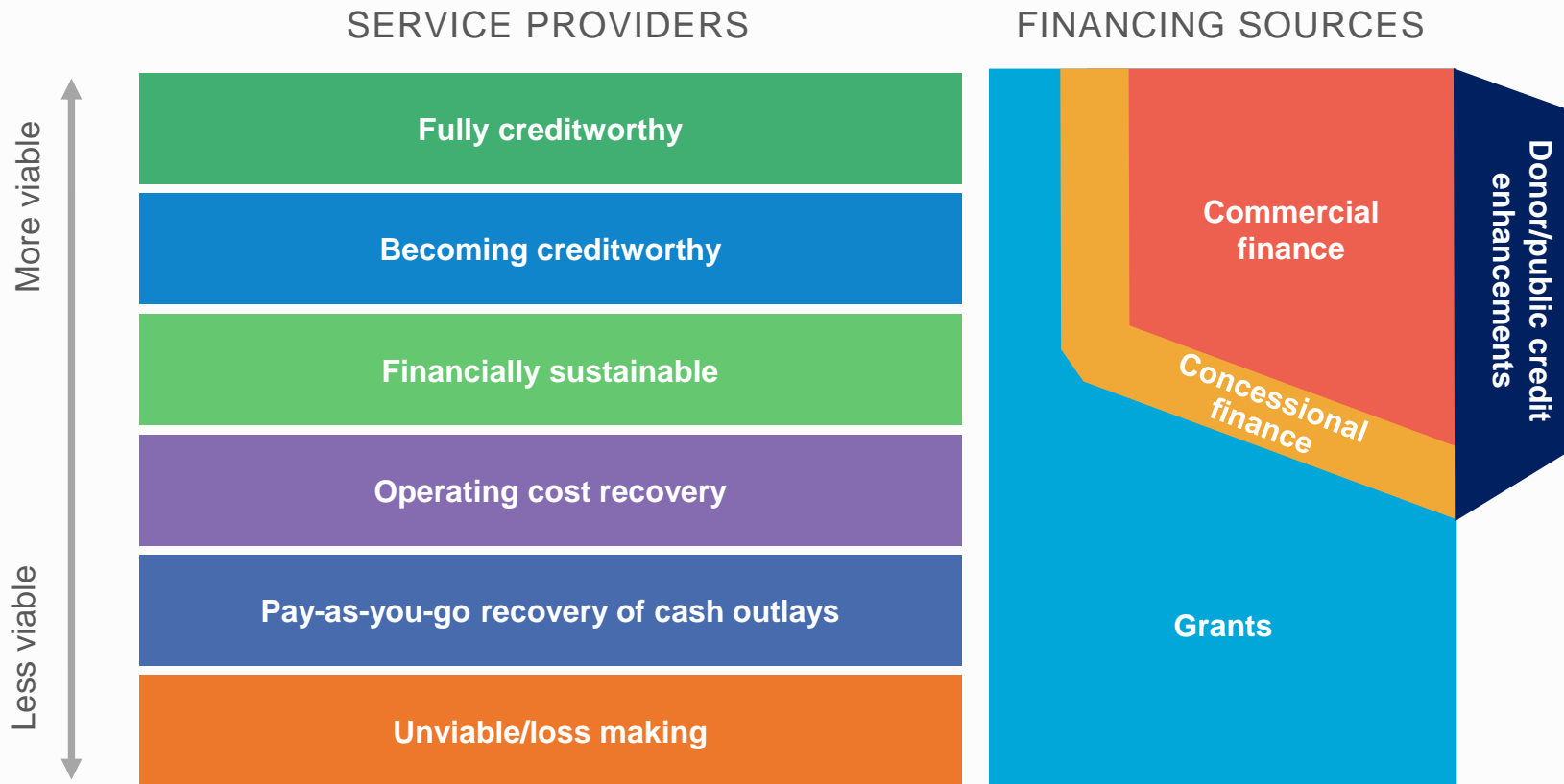
- Leverage repayable finance, particularly domestic commercial finance
- Blend taxes and concessional finance to gradually increase commercial finance

# The path to commercial finance in water



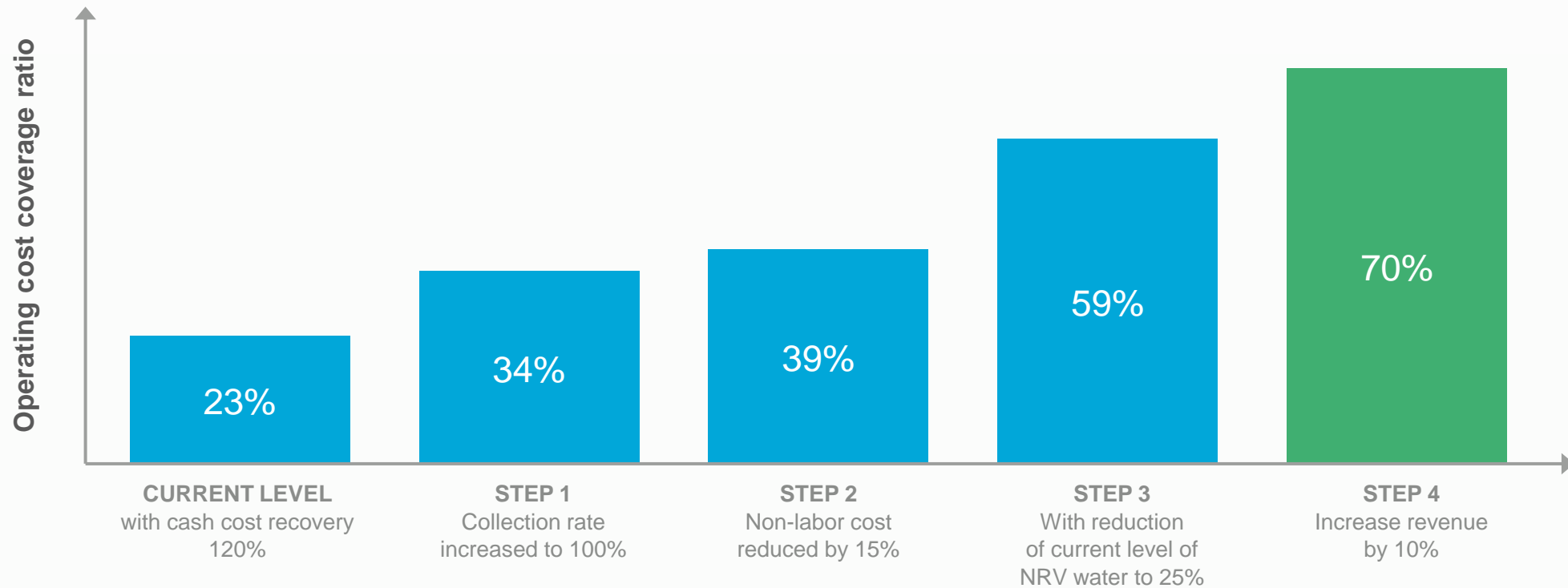


# The building blocks of creditworthiness in the water sector



# Four steps to creditworthiness

We looked at nearly 287 utilities from 35 countries, serving 400 million residents in our IBNET database



# Measuring technical and financial efficiency

## OPERATIONS

- Water produced and wastewater processed per employee
- NRW and sewer overflow rate
- O&M \$ per unit
- Energy consumption per unit

## FINANCIAL

- Debt ratio
- Return on assets
- Days cash on hand
- Debt-service coverage ratio
- Operating ratio
- Bond rating

## CUSTOMER SERVICE

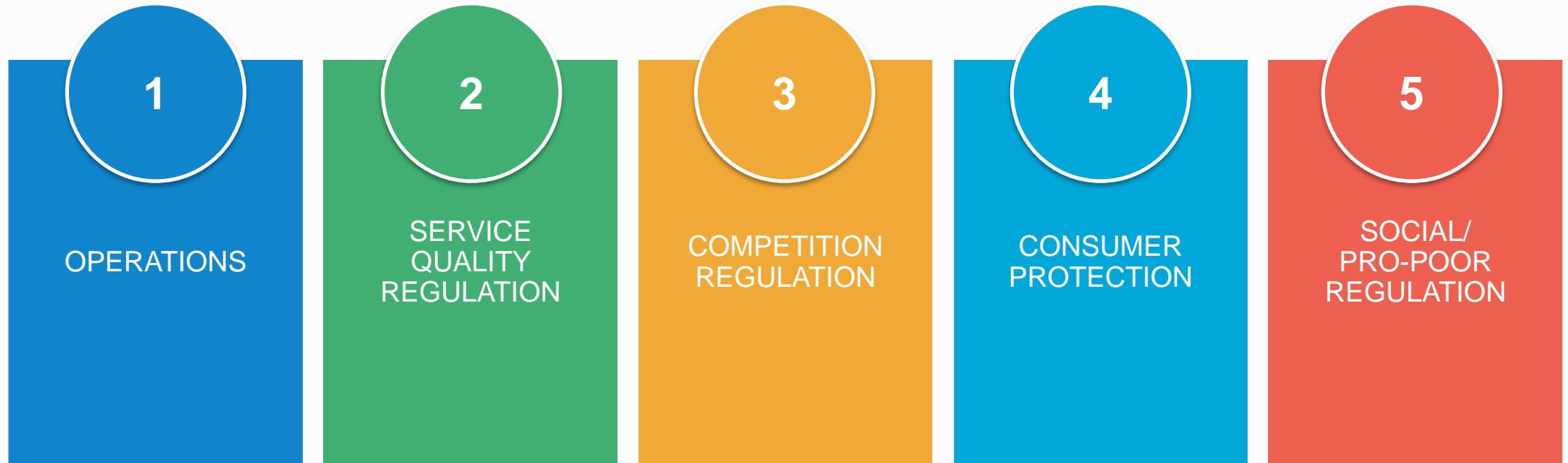
- Complaints per unit
- Call center indicators
- Service disruption frequency and response time
- Tariff affordability
- Billing accuracy

## ORGANIZATIONAL

- Customer accounts per employee
- Training hour per employee
- Management turnover
- Employee turnover

# WSS regulation: Key functions

IN WATER SUPPLY AND SANITATION, THE OVERALL PRINCIPLE OF ECONOMIC REGULATION IS OF INCENTIVE REGULATION WITH A FOCUS ON DRIVING EFFICIENCY.



# Regulatory functions: Challenges and best practice

IMPROVING SECTOR PERFORMANCE	<ul style="list-style-type: none"><li>▪ Business plans, audited against KPIs and tariffs</li><li>▪ Competition, e.g. Zambia</li><li>▪ Performance incentives, e.g. Phnom Penh</li></ul>
SERVING THE POOR	<ul style="list-style-type: none"><li>▪ Cross-subsidy schemes</li><li>▪ Connection fee subsidization, e.g. Manila</li><li>▪ Targeted subsidies, e.g. Chile</li></ul>
FINANCIAL SUSTAINABILITY	<ul style="list-style-type: none"><li>▪ Tariff levels and structures</li><li>▪ Cost monitoring and efficiency</li><li>▪ Bill collection and institutional interventions</li></ul>
LACK OF QUALITY DATA	<ul style="list-style-type: none"><li>▪ Capacity building, e.g. Portugal</li></ul>

# Regulatory Functions: Key Challenges and Best Practice Examples (2/2)

## Transparency and Accountability

- Publicly available sector/performance information, e.g. Kenya, Zambia

## Consumer Protection, Citizen Engagement

- Active CSOs, e.g. Ghana

## Regulatory Capacity

- Tariff setting by an entity with sector knowledge
- Competitive salary

## Financing of the regulator

- Government budget
- Levy from the utilities through user tariffs

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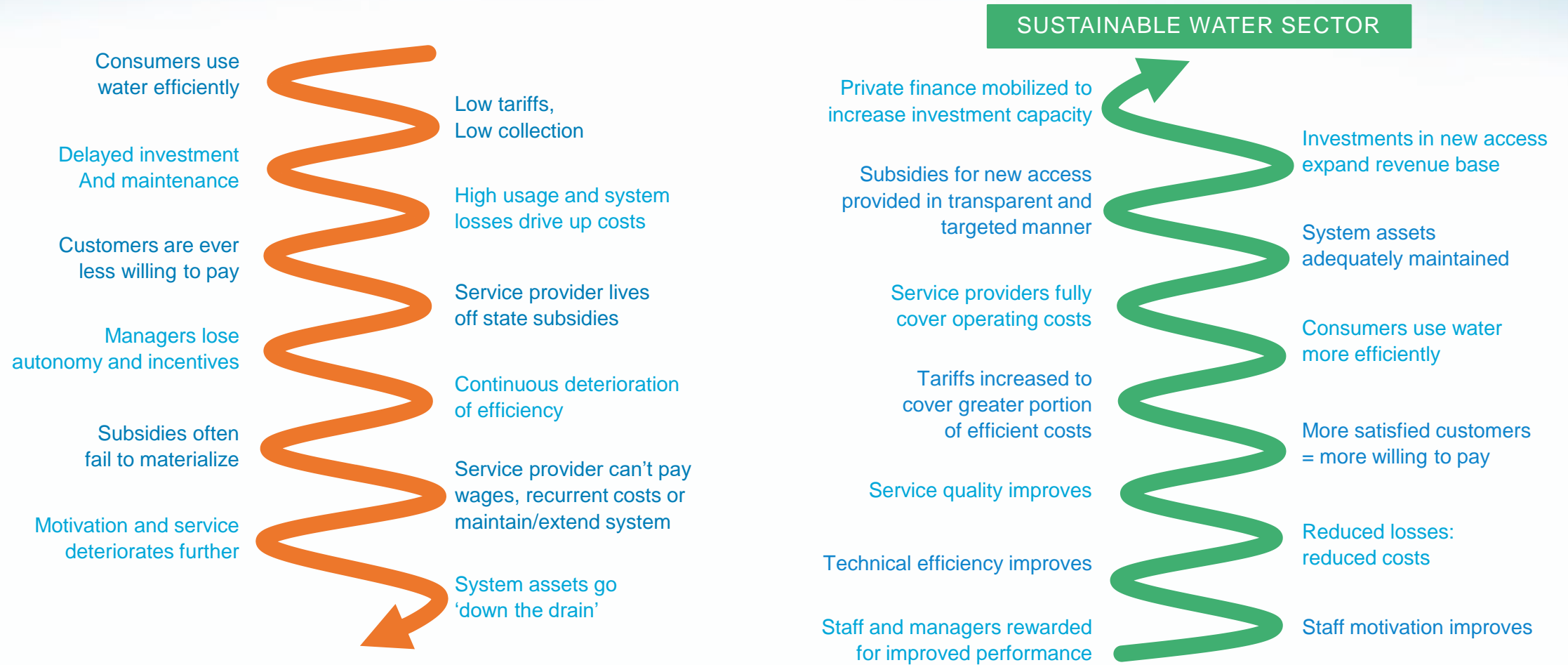
# Reversing the slippery slope

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## SUSTAINABLE WATER SECTOR



# Restoring health to water services



Source: Reform and Finance for the Urban Water Supply and Sanitation Sector, World Bank, 2019



# Key takeaways

- Spending needed to reach universal access is **substantially higher** than previous investment levels
- **Commercial finance is necessary:** public and concessional finance cannot fund universal access
- **Public finance is essential** to support sustainability, target the under-served, and create the foundation to secure commercial finance
- **Technical and financial efficiency**, as well as KPIs, are critical for creditworthiness



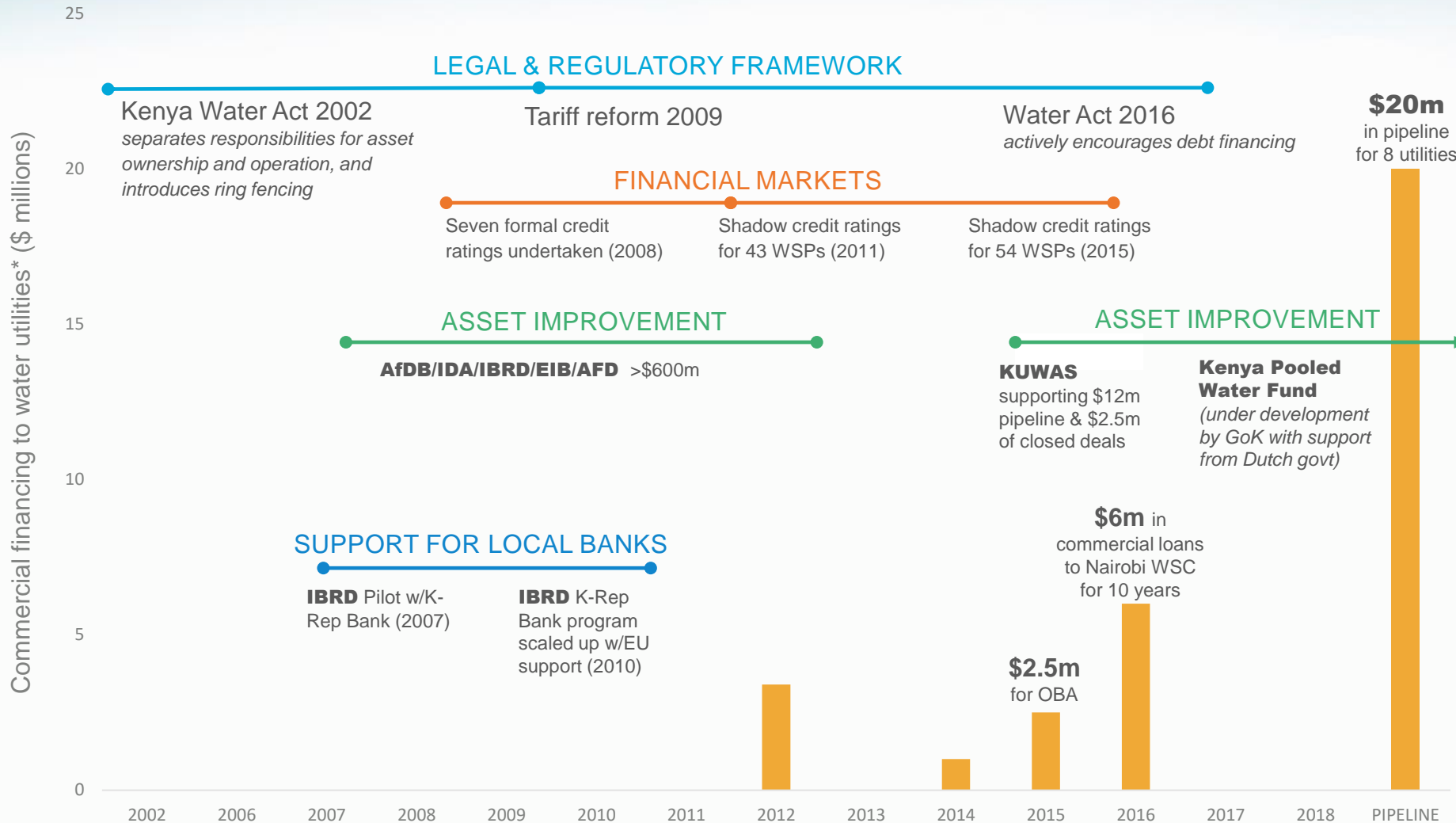
- **Governance, transparency, and regulation** are equally important
- Existing infrastructure must be **well maintained**
- The **full continuum** of commercial finance solutions should be explored
- **Financial incentives** can support public and private investment in water services
- Incremental approach to ensure equity: in least-developed capital markets, **donor/public resources needed to leverage commercial finance**



# Country examples



# Kenya: Mobilizing commercial bank finance



**COMMERCIAL FINANCING IS FROM DOMESTIC CAPITAL MARKETS**

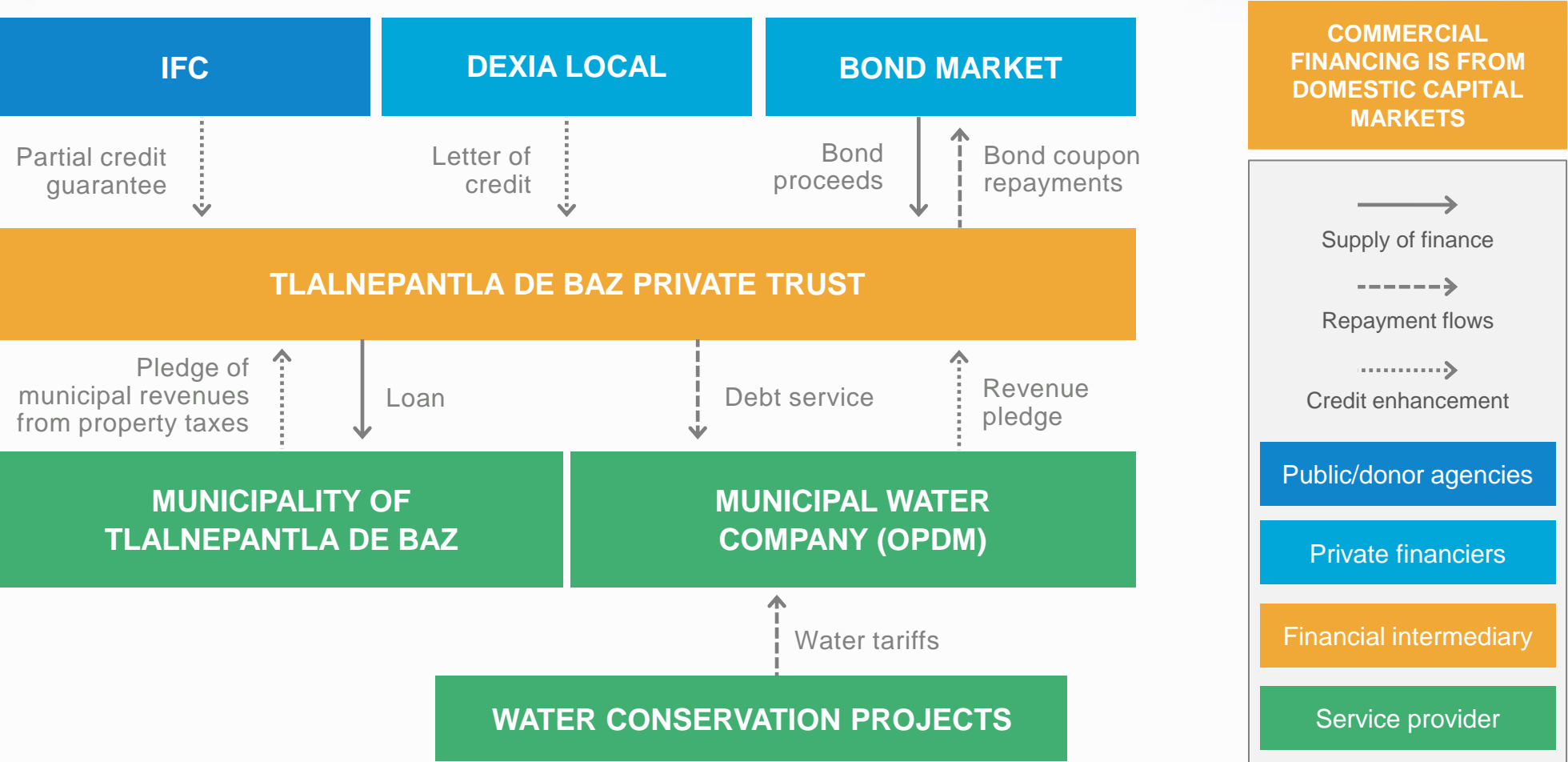
**RESULTS TO DATE**

**\$12.7 million** commercial financing mobilized to improve services in low-income areas, with **\$20 million** in pipeline.

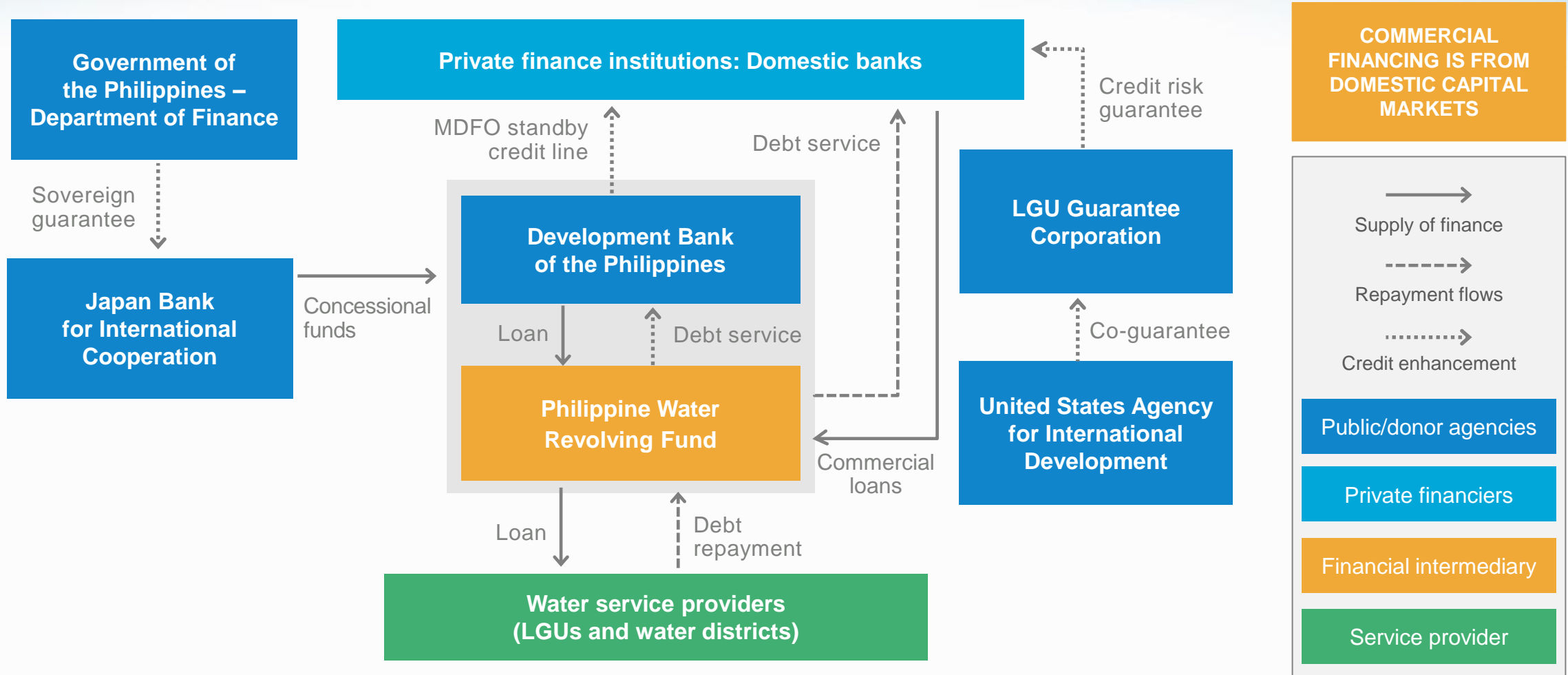
Tenor of loan increased from 5 years in pilot phase to 10 years.

\*Commercial financing includes commercial loans from domestic banks, which may be supported by partial credit guarantees from development partners.

# Mexico: Tlalnepantla de Baz Municipal Bond



# Philippines: Water Revolving Fund





**Thank you**

