



cutting through complexity™

Filling in the Financing Gaps

3rd Asian Sanitation Dialogue

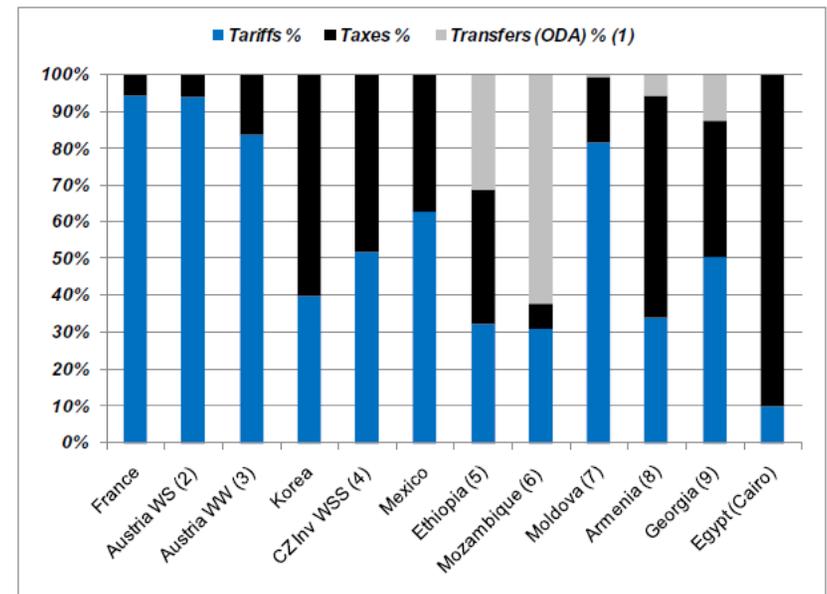
Asian Development Bank

Manila, May 28th 2014

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Strategic financial planning

- It is critical to establish the sanitation sector on a financially sustainable basis
- This requires finding the right mix between the various revenues for the sector - Tariffs, Taxes and Transfers
- Sustainable cost recovery, characterized by:
 - Appropriate mix of the 3Ts
 - Budget planning
 - Tariff policies affordable to all



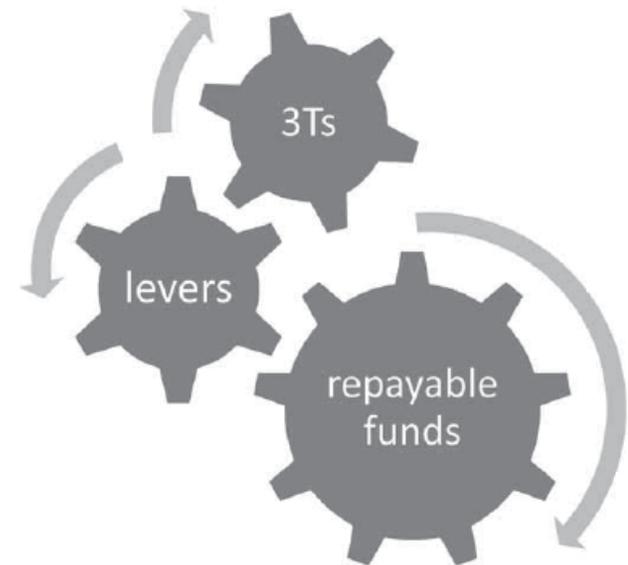
Shares of tariffs, taxes and transfers (official development assistance) in financing water supply and sanitation
Source: OECD

Sub-sovereign finance

- Major growth of interest in financing the sector at the sub-sovereign levels
- This is the level of society at which decisions on sanitation are normally made
- The IFIs have been revising their policies in this regard
- Central governments are wary of offering sovereign guarantees for borrowing and bond issues by sub-sovereign agencies

Leveraging the 3Ts

- There are various ways of increasing the leverage exerted by the 3Ts in attracting funding sources
- They work either by
 - mitigating specific risks that would otherwise hamper financing
 - or by packaging the finance in a form that is more attractive to potential suppliers



Financial guarantees

- Guarantees offer insurance against specific risks entailed by lenders and equity investors in developing countries:
 - Political
 - Regulatory and contractual
 - Credit
 - Foreign exchange
- Guarantees work by:
 - Mitigating specific risks
 - Enhancing securities
 - Improving the terms of the financing
 - Giving exposure to previously unfamiliar markets and products

Halo effect

- Involving a major IFI provides reassurance
- There is the general “halo effect” arising the involvement of an international institution
- IFIs can provide a specific “umbrella of comfort” through their B loan system
- IFIs enjoy de facto preferred creditor status

Other means to reduce risk

Blending and co-financing

- Blending a grant with loan finance
- Useful in softening the overall terms of a financing package
- Alternatively, grant finance can be applied to items in the project package

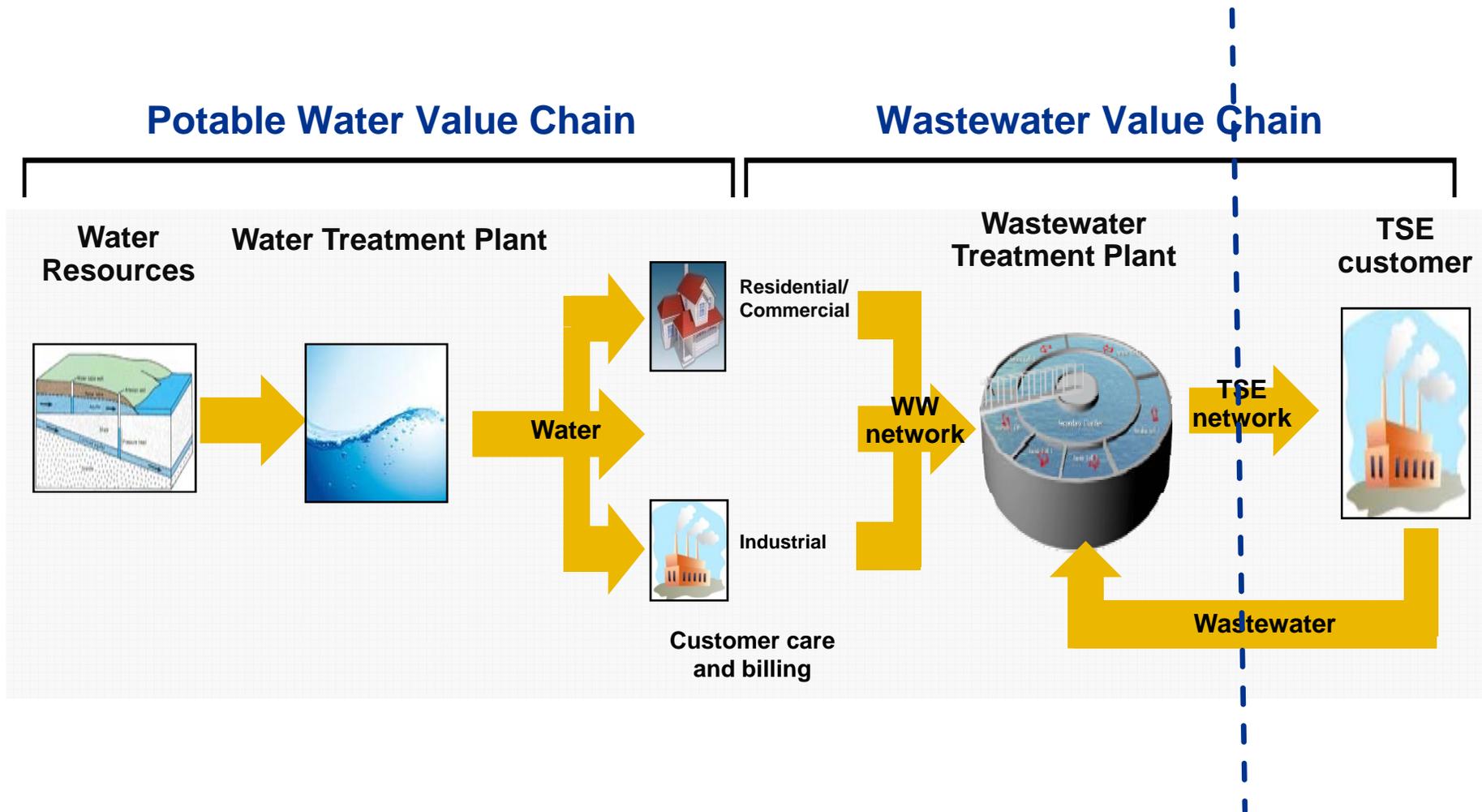
Bond pooling

- Bond pooling operates where a number of municipalities collaborate in issuing a single bond
- Saves on costs of the transaction
- Enhances the quality of the bond
- Bond may receive additional enhancement from an external guarantee

Examples of Bond pooling, with and without external credit enhancement

- Tamil Nadu, India - Investment programmes of 14 local bodies were combined in a pooled fund, which received credit enhancement through USAID
- Group of communities in Colombia formed a trust, which issued a bond to domestic investors on the local stock exchange

Wastewater is a resource



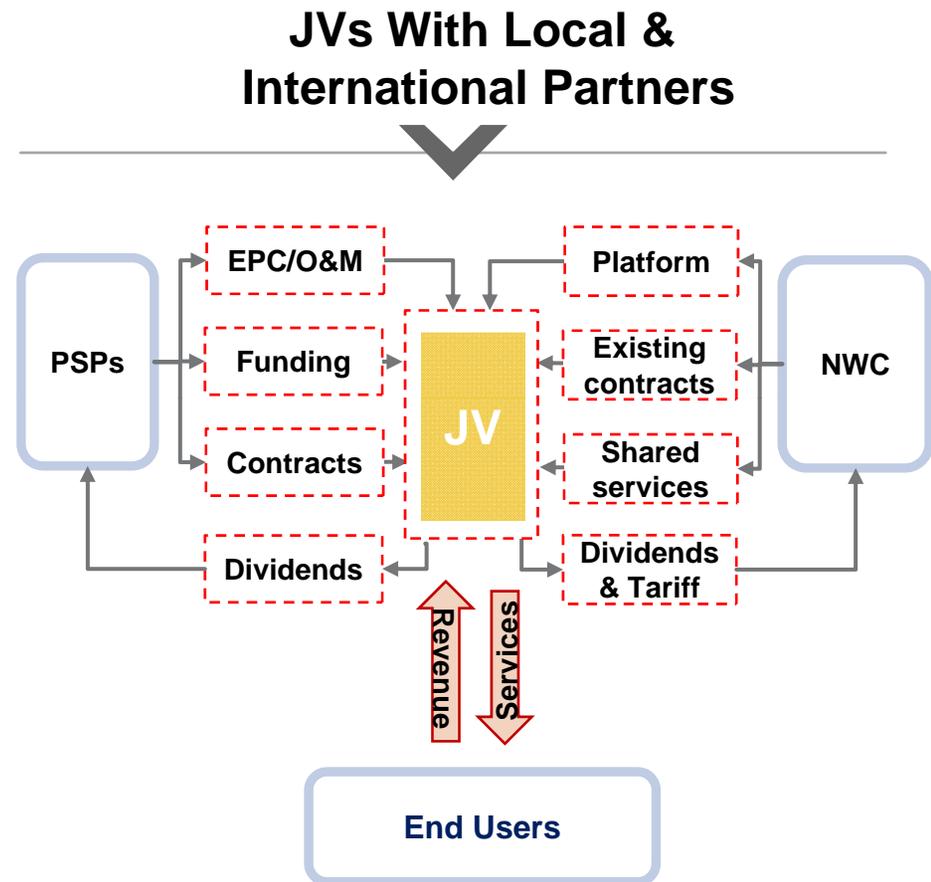
Wastewater should not be wasted

Wastewater reuse

- Generating additional revenues by selling Treated Sewerage Effluent (TSE) to industrial and other commercial users
- Can help cross-subsidize sanitation services
- Innovative structures involving the Private Sector to help finance required infrastructure (transmission lines, upgrades to WWTPs)
- Regulatory and economical incentives need to be in place:

National Water Company – Saudi Arabia

- Creation of JVs with Private Sector
- PSP in charge of funding any additional infrastructure
- JV buying TSE from NWC
- Before that, WWTP represented a sunk cost for NWC
- End users include mining, oil & gas and power companies





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Thank You

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