Finance and Access

From traditional sources to ‘new’ actors

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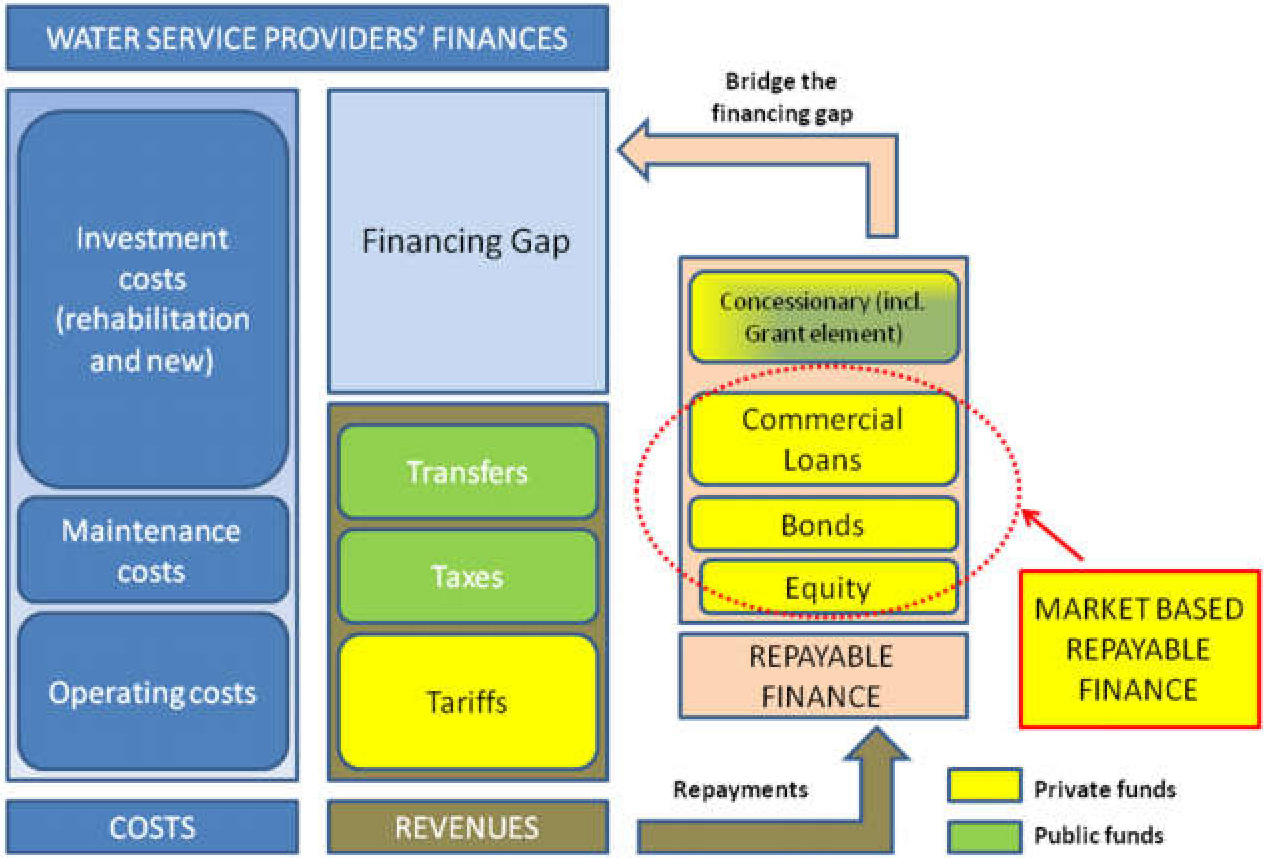
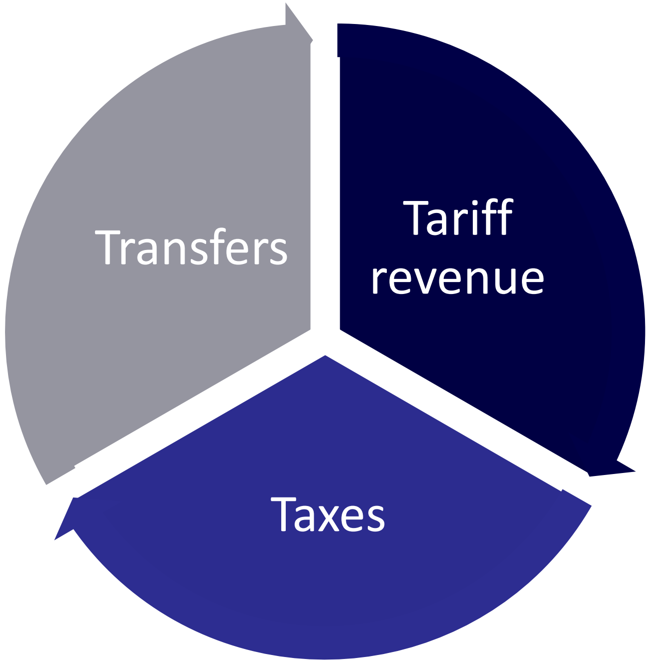
Sources of Finance for WSS



OECD, 2010

The 3Ts

Traditional finance mechanisms of WSS has always been referred to as the 3Ts:



How do we pay for it?

-Tariffs revenue:

- -Foundation of future cash flow
- -Will (always) remain the main source of funding – specially for recurrent O&M
- -Under the full-cost recovery 'paradigm' tariff should be the main source of finance

- -With country development and mature WSS sector basic financing of services shifts to tariffs
  - - France 90%, Korea 40%, the Netherlands (~) 100%

-However,

- -Tariff are subject to political decisions
- -In times of crisis (any!), difficult to discuss

How do we pay for it?

-Taxes (tax funded subsidies):

- -Widely used to *support* tariff revenue

-How they can be used:

- -Grants linked to specific projects (pro-poor interventions)
- -(Soft) loans
- -Sovereign guarantees to sub-national agencies
- -To ‘cover’ operating deficits de facto

-High level of unspent budgets for WSS (WaterAid, 2005) – only a fraction of the allocated amounts

- -This may reflect a difference in priorities between central and local administration, bureaucratic blockages, political constraints

How do we pay for it?

- -Transfers:
  - -Originate from external ODA (official development assistance) – **'aid flow'** (coined/monitored by OECD)
  - -Includes disbursements by bilateral donors and multilateral organizations
- -Typically grants but can include concessional loans
- -International Financial Institutions (IFIs) are often times recorded as transfers (even though they are not grants)
- -Providers of assistance (2010) : Japan (28%), Germany (10%), IDA (9%), France (8%) and the EU (7%)

How do we pay for it?

Grants 28%	Concessional loans 34%	Non-concessional loans 38%

OECD, 2012

- Within the category ‘aid’ (transfer) concessional loans are the prime instrument used to finance investments in WSS
- Grants go primarly to the poorer countries (even though all transfers usually have a grant component)
- Aid extended in the form of:
  - Projects (76%)
  - Budget support and pooled funding accounting (16%)
  - Technical assistance (7%)

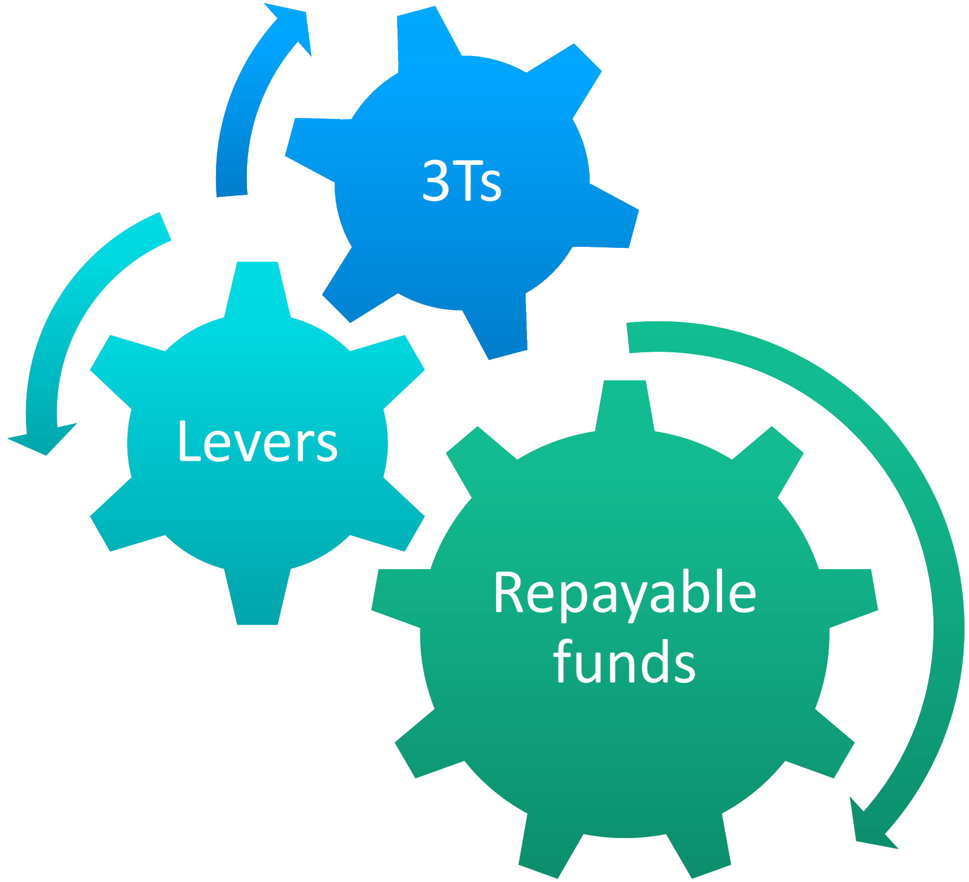
‘Innovative’ financing mechanisms

- Some call it **innovative** it, some call it **repayable**
- Why?
  - 3Ts can fill in the financing gap (partially), but only additional resources can bridge the gap
  - Provide the up-front finance necessary to work lumpy investments
- Accessing market-based resources
  - Debt finance: loans from commercial banks, bonds through capital markets or project finance
  - Equity finance: listed and non-listed equity (investors)

- Also innovating in the way ‘public money’ is used: new taxes, new collections, ‘efficient’ allocation of funds, etc…

Reflections

- No stand-alone solution
- Traditional financial mechanisms remain
- Repayable funds gain importance
- Levers:
    - magnify the ability of future cash flow to attract repayable source of finance
    - Mitigate risks that hamper financing opportunities
    - Packaging financing opportunities in a way that is more attractive to potential suppliers

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