



FINANCIAL MECHANISMS FOR WATER RESOURCES MANAGEMENT

Regional Seminar on National and Trans-boundary Water
Resources Management in Africa.

March 26 – 30, 2012, Accra, Ghana

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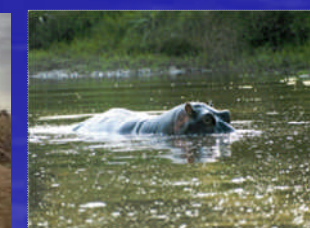


REGIONAL/BASIN LEVEL

- High Political Complexity and Constraints
- Member Contributions- High potential of arrears
- Pooled risks and credit profiles of member states

NATIONAL LEVEL

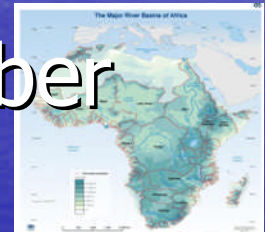
- Low Political Complexity and Constraints
- National appropriations and municipal contributions
- Sovereign credit profile and risk





REGIONAL/BASIN MECHANISMS

- MEMBER ANNUAL CONTRIBUTIONS – high arrears, free-riding by some member states
- Funds – financing base, legal entity of the fund, fund management, fund administration and fiduciary responsibilities

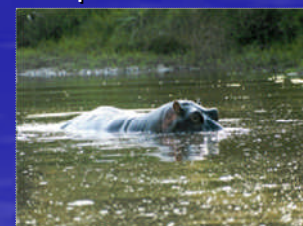
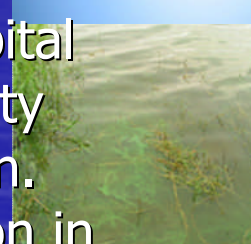
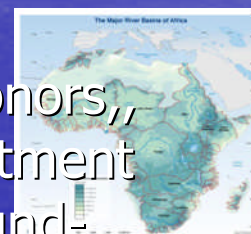




REGIONAL/BASIN MECHANISMS

● Type of Funds:

- ❖ Project-based Funds – funding based on proposals or project requests from multilateral and bilateral donors
- ❖ Investment Funds- Funding base- member states/riparians, donors,, Community levy (Niger River Basin Authority). (a) Pooled investment funds –part grant, part concession lending (b) Capitalization fund- Shareholders. Loan repayment and net income from project.
- ❖ Trust Fund. Nile Basin Trust Fund, Trustees – EU, Norway, World Bank, Canada. Shared Vision program, Nile Eq. Lake (NELSAP)
- ❖ Endowment Fund – generation of investment income from capital pool/seed funding invested in perpetuity. Disbursement capacity depended on balance between investment income and inflation. Example, Great Lakes Protection Fund \$103 million. \$2.5 million in 2010 investment income (2.4%).





REGIONAL/BASIN MECHANISMS

● Type of Funds:

- ❖ Revolving Funds – Initial capital, augmented by revenues from charges, fees, fines, taxes, loan repayments. Disbursement capacity grows overtime due to increasing asset base. Example Vietnam Water and Sanitation Revolving Fund
- ❖ Sinking Funds – Significant initial investment contribution (principal or capital base). Entire capital base and investment income disbursed over a period of time (such as 15 – 20 years). Disbursement capacity declines overtime.
- ❖ Mixed Funds – Could be single or separate account with both capital and investment portions. Investment –usually from endowment, grant, concession lending, or project income. Very flexible arrangements with multi-donors. ORASECOME considering option?





REGIONAL/BASIN MECHANISMS

● International Financing Mechanisms

- ❖ Climate Change Convention – Financing under 2007 Bali Action Plan, Clean development Mechanism- facilitator, technical assistance, advisory services.

Prototype carbon fund – certified emission reduction credits from investing in activities related with Art. 6 (JI) or Art 12 (CDM).

Monterrey Consensus and Doha Declaration on Financing for Development.

- ❖ Type II Partnership Funding- Voluntary multi-stakeholder initiatives contributing to the implementation of Agenda 21, Rio+5 and the Johannesburg Plan of Implementation (JPOI). Dams and Development Project – Lesotho, South Africa & Brazil, China, Germany, Mexico, Turkey. EU Water for Life Initiative- Algeria, Egypt.





REGIONAL/BASIN MECHANISMS

● Public-Private Partnership Mechanisms

- ❖ Utility and Public Services Management Income. –user charges and fees, leases and concessions, Fees – “user pays” –end user for drinking water, irrigation; “withdrawal pays” –diffused; “polluter pays”-pigouvian tax to address externality of pollution,
- ❖ Utility and project contracts – bankable projects- design, build, operate and transfer (DBOT); build, own, operate (BOO) capital assets owned by private company until contract term; buy, build, operate (BBO); lease, develop, operate (LDO) –leases or purchases facilities, improves and operate.

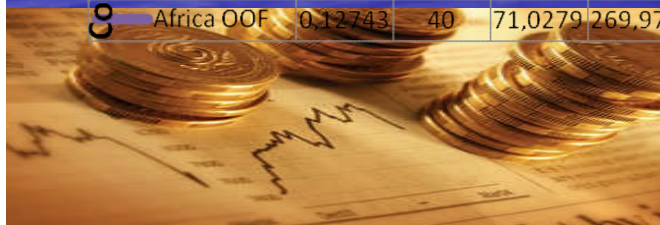
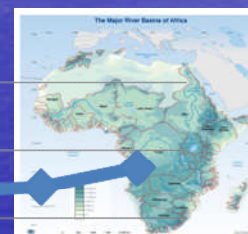
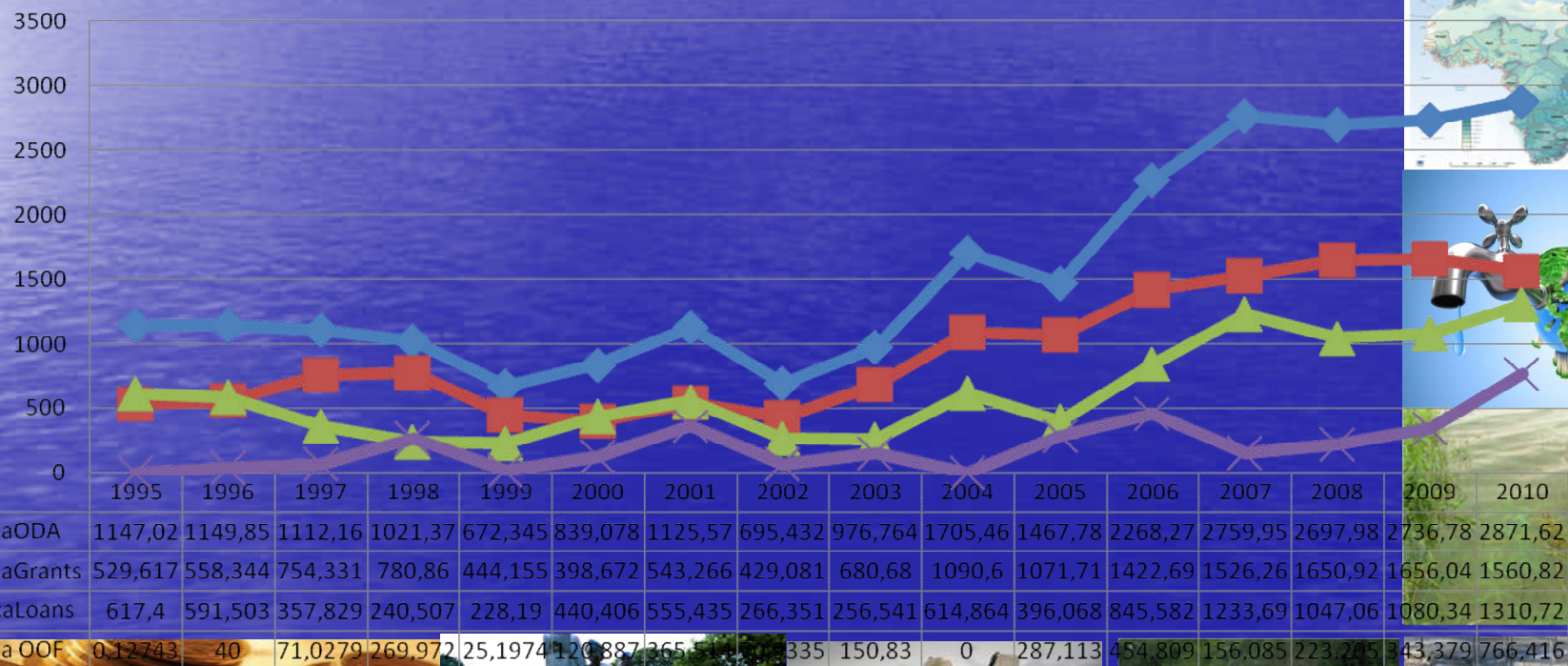




NATIONAL MECHANISMS

Composition and Trends in Overseas Development Assistance for Water Resources and Sanitation Management in Africa (1995 - 2010)

Commitments (Current Prices, USD Millions)

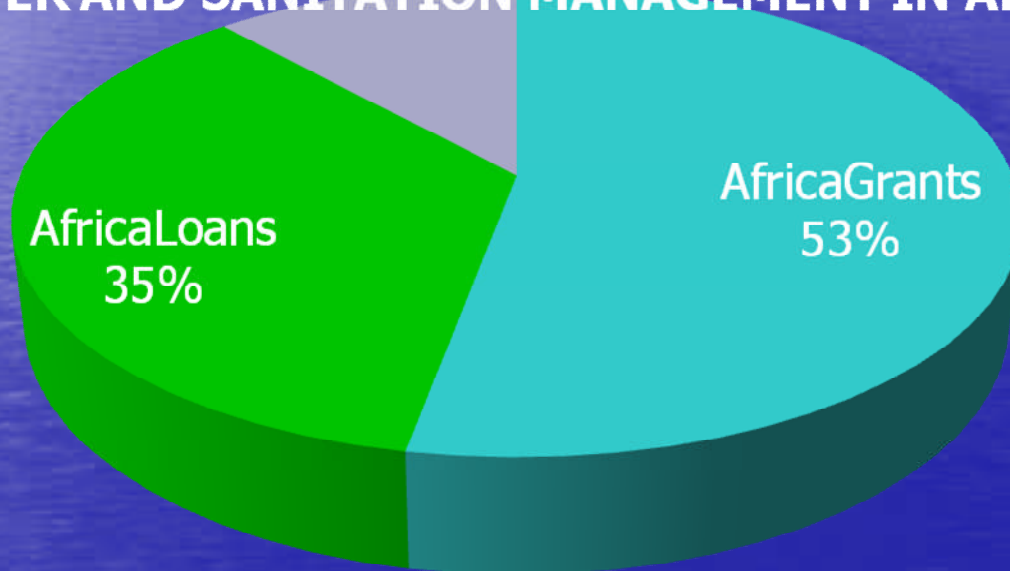




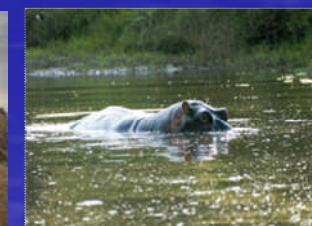
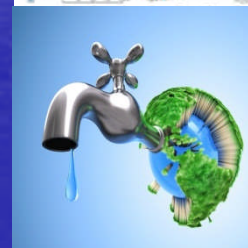
NATIONAL MECHANISMS

Africa OOF 12%

PERCENTAGE OF GRANTS, LOANS AND OTHER OFFICIAL FLOWS IN OVERSEAS DEVELOPMENT ASSISTANCE FOR WATER AND SANITATION MANAGEMENT IN AFRICA



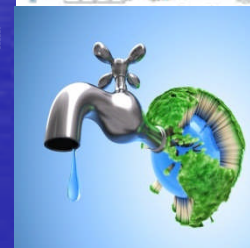
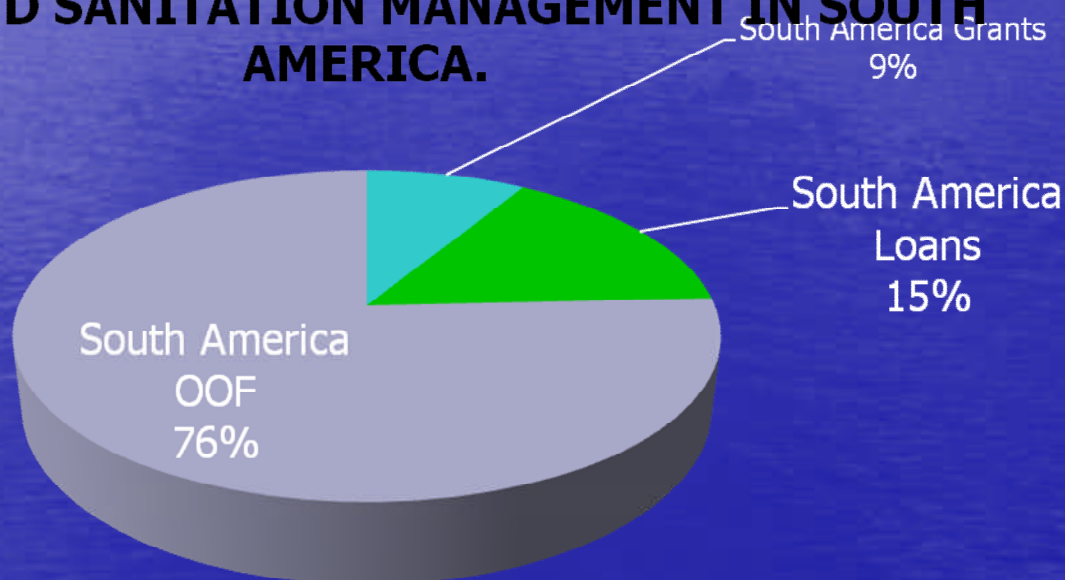
Source: OECD Development Assistance and Creditor Reporting Database System.



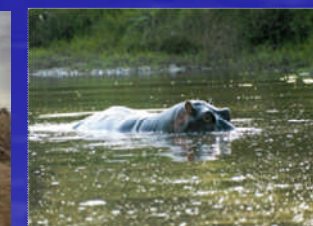


NATIONAL MECHANISMS

PERCENTAGE OF GRANTS, LOANS AND OTHER OFFICIAL FLOWS IN OVERSEAS DEVELOPMENT ASSISTANCE FOR WATER AND SANITATION MANAGEMENT IN SOUTH AMERICA.



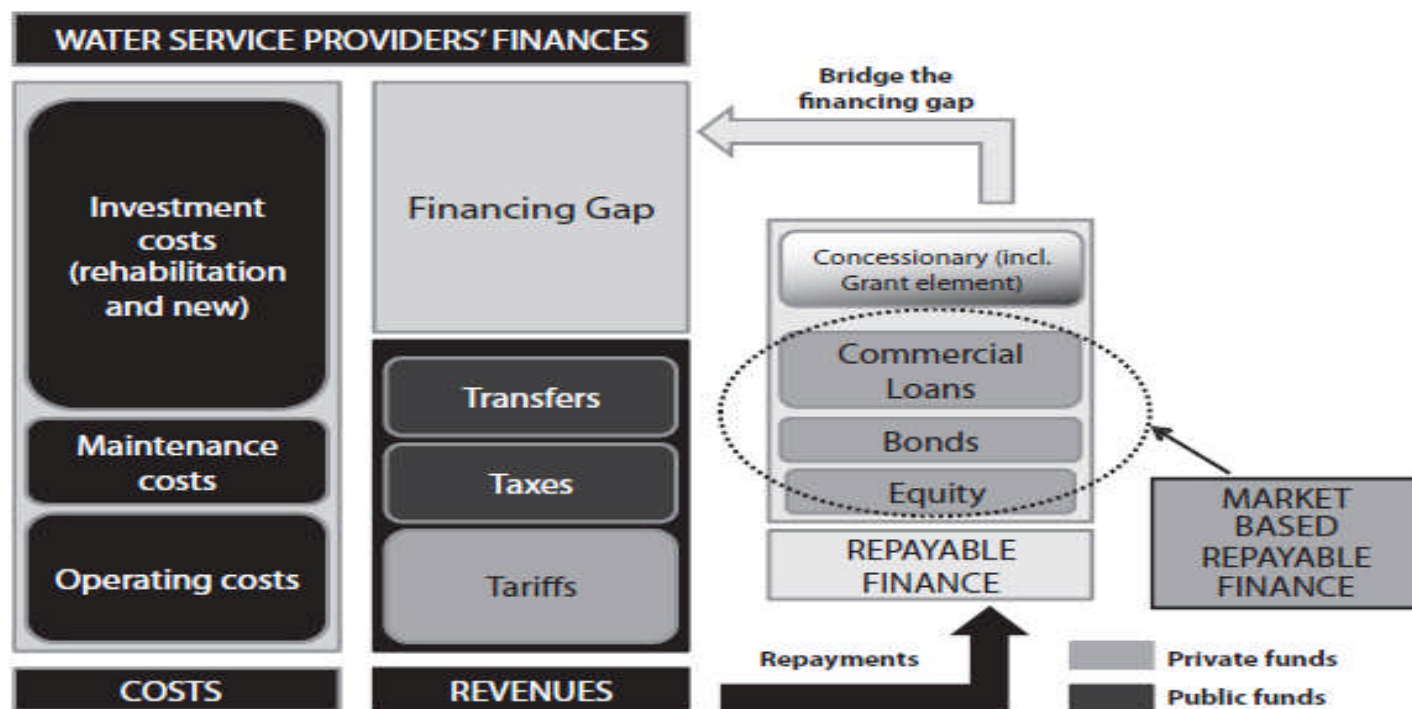
Source: OECD Development Assistance and Creditor Reporting Database System. Accessed,



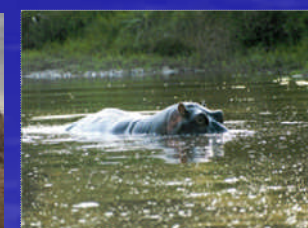
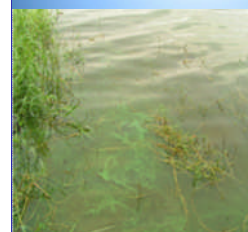
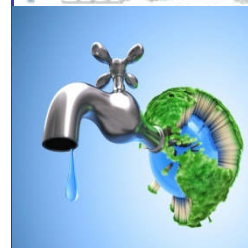


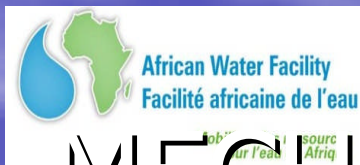
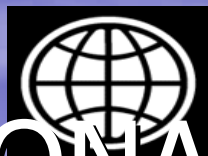
NATIONAL MECHANISMS

Figure 1.1. Using repayable finance to bridge the financing gap



Source: based on OECD (2009), *Managing Water for All: An OECD Perspective on Pricing and Financing*.





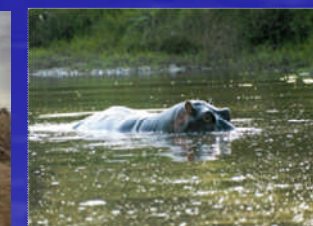
NATIONAL MECHANISMS

Financing issues

- Level of operation
- Degree of Corporatisation
- Ownership
- Creditworthiness

Considerations

- Municipal (s) or national.
- Special purpose entity, municipal; or state department
- Public or public-private
- Sovereign credit risks profile and cost-recovery profile of project

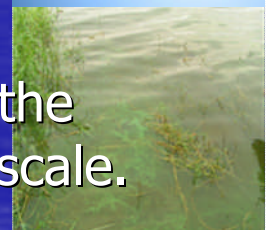




NATIONAL MECHANISMS

❖ Debt Finance – Sovereign or municipal bonds issued through capital market, loans from commercial banks and project finance.

- Johannesburg City Bond
- Issued a 12-year Rand-denominated bond (USD 150 million).
- Part for city water infrastructure and supply development projects.
- Problems – credit rating and term of bond beyond 6 years.
- External Credit Enhancement -Partial credit guarantee from International Finance Corporation raised its credit rating for the bond from A- to AA in the Fitch credit scale.



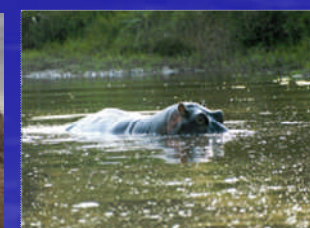
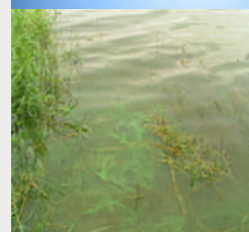
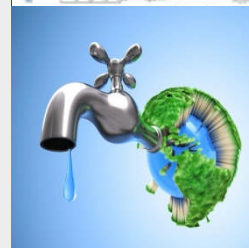
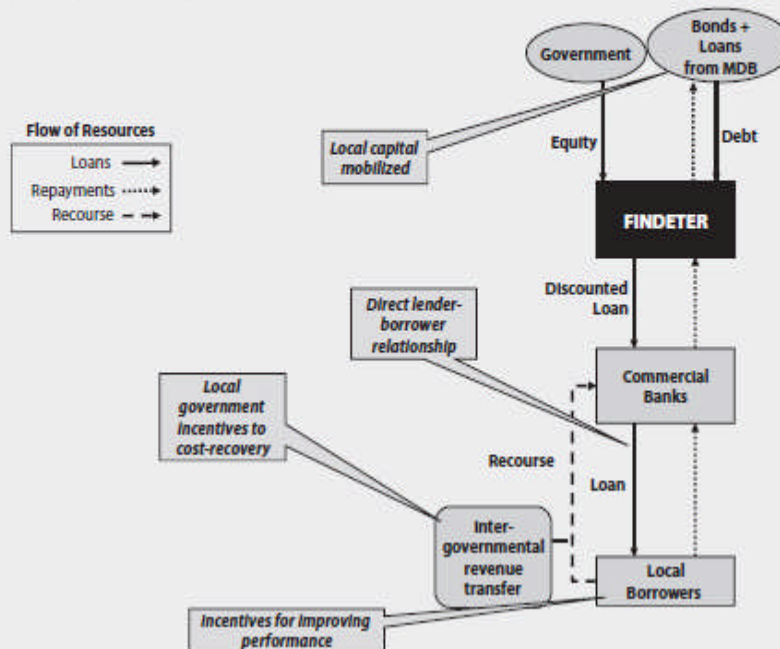


NATIONAL MECHANISMS

- ❖ FINDETER –established by the Columbian government in 1989.
- ❖ Government owns 90% and local governments own the 10%
- ❖ FINDETER – enhanced commercial banks (CBs) lending to municipalities.
- ❖ CBs lend to locals and FINDETER lends to CB at a discounted rate.
- ❖ Water and sanitation investments about 25%

Box 3.1. FINDETER in Colombia: incentivizing commercial banks to lend to local entities
(continued)

FINDETER – Colombia





NATIONAL MECHANISMS

❖ Equity Finance – Listed instruments through capital markets and non-listed through private equity funds and corporate investors.

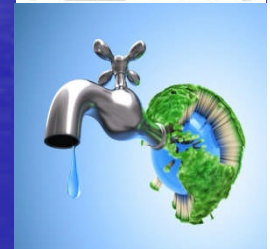
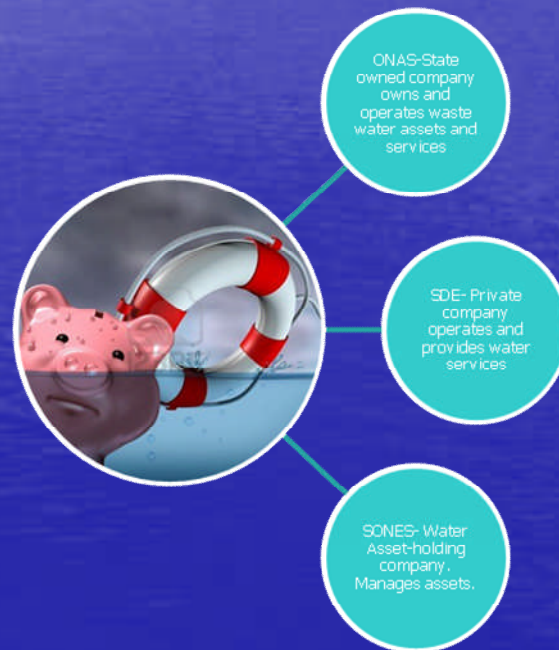
- SABESP, Listed on the Sao Paulo and New York Stock Exchange (NYSE).
- Provides water and sanitation services in Sao Paulo. State owns 53% of shares.
- Issued shares in 1997; Began trading American Depositary Shares on NYSE in May 2002.
- Issued Eurobonds in 2003 and 2006 for a total of USD 238 million.
- Paid USD 1.63 billion in dividends over the last ten years.





NATIONAL MECHANISMS

- ❖ National utility company SONEES in Senegal was split into three entities- ONAS, SDE and SONES in 1995.
- ❖ Commercial bank loan of USD 21.4 million from Citibank and Compagnie Bancaire de l'Afrique Occidentale (CBAO). 10% at 6 yrs
- ❖ World Bank (60%) and KfW (50%) of debt transferred as equity from state to SONES- reduced the pressure from debt servicing.





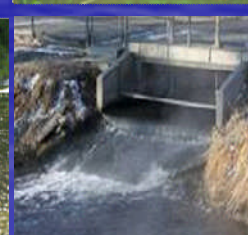
NEXT STEPS -

- ❖ GROUP SESSIONS. – share experiences, best practices and explore new innovative financing mechanisms for WRM.
- ❖ COUNTRY LEVEL (GROUP 1)
- ❖ BASIN LEVEL (GROUP 2)
- ❖ REGIONAL LEVEL (GROUP 3) -

Funds- financing base, legal entity of the fund, fund management, fund administration and fiduciary responsibilities. PPPs, International Financial mechanisms and Type II partnership funding.

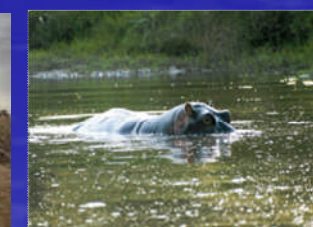
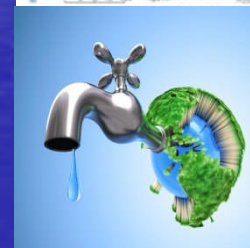
- For Country Level- Level of operation, Degree of Corporatisation, Ownership, Creditworthiness, investment type (debt or equity or blend).

- ❖ PRESENTATION ON OUTCOMES OF THE GROUP @ 16:00





THANK YOU



Key Issues Discussed

A summary of the issues discussed relating in particular to the tools of integrated water resources management (notably

- Notes
- Notes



Challenges (National Level)

What are the constraints and difficulties confronting the management of water resources (at the national level) with respect to capacity building, monitoring, socio-economic activities, policy etc

- Notes
- Notes



Challenges (Regional Level)

What are the constraints and difficulties confronting the management of water resources (at the regional level) with respect to capacity building, monitoring, socio-economic activities, policy etc

- Notes
- Notes



Important Milestones Achieved (National Level)

Indicate the successes achieved so far (in IWRM) at the national level and the implications it has for the management of river basins in other parts of Africa

- Notes
- Notes



Important Milestones Achieved (Regional Level)

Indicate the successes achieved so far (in IWRM) at the regional level and the implications it has for the management of river basins in other parts of Africa

- Notes
- Notes



Climate Change Mitigative Measures

What has been the impact of climate change on the management of water resources in Africa? What steps need to be taken to address them ?

- Notes
- Notes



Key Messages & Action Plans

Highlight the main messages of the presentation and the recommendations arising from the issues discussed.

- Notes
- Notes

