

WEBINAR

MAKE IT RAIN: WATER UTILITY FINANCING IN THE DANUBE REGION

“Make it rain - Water Utility Financing in the Danube Region” was the event title, and World Bank Senior Water Specialist Patricia Lopez took the stage as moderator. In her introductory presentation Ms. Lopez walked the audience through the World Bank’s recently updated strategy framework “Scaling up Finance for Water”.

Aware of the fact that the global water sector needs investments to the tune of 6.7 trillion USD by 2030, and 22.6 trillion USD by 2050, to live up to the United Nation’s Sustainable Development goals, the World Bank has prioritized water at the highest level among the issues requiring fast-track action.

Mobilizing every source

Making ends meet requires mobilizing every available source, both additional public allocations and private sector financing. Commercial lending, capital market operations, public-private partnerships, climate-related concessional funding, and grant funding need to be in the mix to make things work. Which is where the World Bank Group comes in with the strategy framework “Scaling up Finance for Water”.

Core of the strategy is a 10-step roadmap for water sector financing, with capacity building to support the foundations of creditworthiness topping the list, turning around the technical, operational, and financial performance of utilities to make them bankable at the core, innovative financing options as a key to solutions, and a coordinated approach with stakeholders and sector financiers as a way forward to optimize financing efforts.

Finding the perfect mix

A key principle of the strategy development was leveraging the resources that may be available through donors, multilateral development banks and IFIs and blending them with other sources of capital for water and climate smart projects.

Among the broad range of potential solutions, Patricia Lopez mentions the World Bank Group Scaling ReWater Program, a hybrid PPP financing model that builds on the sector's renewed interest in wastewater reuse and desalination in the climate adaptation, circular economy, and sustainability context.

Ms. Lopez closed her presentation with the encouraging example of the wastewater treatment plant in Durban, South Africa, a PPP Build, Operate, Finance and Transfer model for the treatment of municipal wastewater for direct reuse in industrial processes which was realized at no cost for both municipality and utility and has earned Durban money in the long term.

The art of the 50-million-dollar deal

Following up, Lyubomir Filipov, Director of Strategic Partnerships and Regulation at Sofia Water, brought firsthand experience with smart financing to the stage.

Mr. Filipov reminded the audience that, mostly preoccupied with technical issues, the water sector tends to underestimate the importance of financial efficiency. With the options to raise revenues often restricted, reducing financing costs holds a promise – provided that those in charge know what they are doing. The Sofia Water management obviously did. In the low interest rate environment of 2016, they decided to refinance, and Mr. Filipov explains in detail how the company cut a deal that took Sofia Water from 50 million Euros debt back then to today's debt-free status. The refinancing process took a year. The team had to overcome an initial reluctance of banks to involve themselves in an unclear regulatory environment, and wrestled through numerous bidding rounds and due diligence checks before winding up with a deal that met the demands of all involved stakeholders, including mother company Veolia and the municipal government of Sofia. The effort paid handsomely, saving the company 3 million Euros in interest rates.

What your bank would like to see

Next on the stage, Ladislav Tolmaci, Executive Director Corporate Financing Solutions of Erste Bank Austria contributed the bankers' perspective, noting that for commercial banks, structuring a financing product for a water utility is a quite complex business:

In a highly regulated environment, the bank must look at the regulations and their implications for the bottom line and the financial projections. Due diligence will also involve reviewing the technical and environmental aspects of the business. What banks look for are solid business plans, an acceptable financial standing, equity for the investments, and an overall healthy current balance sheet position. Mr. Tolmaci reminds the audience that a deal like the Sofia Water refinancing would look totally different in today's high interest environment, with high inflation rates additionally impacting project costs. But he also acknowledges that despite all this, projects still can be feasible, e.g. if an investment succeeds in reducing today's high energy costs.

Sound advice

After a short excursion about the difference between corporate finance, which puts debt on the balance sheet of a business, and project finance, which means the debt repays itself from the revenues of a specific project, moderator Patricia Lopez handed over to World Bank Strategy Officer Larinpari Sailo to explain the strategic role of IFC as the private sector arm of the World Bank Group. Operating globally, IFC invests in private water sector companies in emerging markets. In addition to financing instruments, IFC and the World Bank in general provide technical

assistance in the form of advisory services. In this context, Ms. Sailo mentions the Utilities for Climate platform, an initiative that IFC has recently launched to create a network of climate-smart utilities in emerging markets, providing them with financing, technical assistance, advisory services, and a knowledge sharing platform.

A one-stop shop for guarantee facilities

Next, World Bank Senior Underwriter Wenhe Zhang explained the role of MIGA, the World Bank Group's Multilateral Investment Guarantee Agency as a provider of political risk insurance and credit enhancement. MIGA insures the whole risk spectrum from currency inconvertibility and expropriation to breach of contract, war, and civil disturbance. Its credit enhancement product covers financial obligations at the sovereign, sub-sovereign, and SOE levels. During the last two decades, MIGA has supported 21 water and wastewater projects around the globe. Mr. Zhang informs the audience that from 1 July this year, the new World Bank Group guarantee platform will operate as a one-stop shop for World Bank guarantee facilities, including MIGA.

Teaching the fine art of financing

Last to take the stage was Katerina Schilling, Head of the IAWD Secretariat. Standing in for AQUASAN President Vesna Muslic, Ms. Schilling introduced the audience to one of altogether eight training programs provided by D-LeaP, the Danube Learning Partnership.

“Access to Financing” is designed to support utilities in search of financing for performance improvement. Building on World Bank know-how, the course consists of three training workshops, supplemented by homework and trainer support. It aims at capacity building for both upper management in utilities and decision-makers on the owner side, e.g. local governments, and municipalities. Applicable for implementation in South-East European countries, and with currently ongoing plans to roll out in North Macedonia and Albania, the program is ideally suited as a pre-assessment exercise for LGUs and PUCs that are looking to access loans. Ms. Schilling invites interested parties to get information under this link and to make contact.

Further information, including the presentations and recording of the webinar, can be found on our [website](#)!