World Bank Group
Scaling up Finance for Water Framework

DWP Know-How Series

MAKE IT RAIN
WATER UTILITY FINANCING IN THE DANUBE REGION
March 13, 2024

WORLD BANK GROUP
Water

GWSP
GLOBAL WATER SECURITY & SANITATION PARTNERSHIP

WBG Scaling up Finance for Water - Strategic Framework

WORLD BANK GROUP
Water

Lessons Learned

What has/ has not worked?

Binding constraints to PSP and PCM, based on past/ ongoing initiatives

- **Undervaluation of water**
- **Lack of financially viable service providers**
- Absence of enabling conditions
- **Social reluctance** to PPPs
- **Multiple risks** and high transaction costs for PPPs

Strategic Directions

Based on lessons learnt, which approaches can be scaled?

1. **Establishing the enabling conditions** for financial sustainability, creditworthiness, and access to financing
2. **Mobilizing private sector expertise** to improve operational efficiency and address climate impacts
3. **Diversifying and expanding the spectrum of finance solutions**

with a cross-cutting theme on ***Advancing Climate Outcomes***

WBG Roadmap

Across the strategic directions, what actions need to be taken by WBG and other development partners?

Roadmap focusing on a **combination of demand- and supply-side solutions** for financing through the following themes:

- **Training and Capacity Building**
- **Analysis and Diagnostics**
- **Financial Planning**
- **Turnaround Strategies**
- **Financing Solutions**
- **Stakeholder Engagement**

Meeting Water SDGs and Climate Goals – US$ 6.7 trillion by 2030 and US$22.6 trillion by 2050

WBG Roadmap: 10-Step Engagement

Cross Cutting Theme

Not sequential steps!	Steps of Engagement	WBG Tools and Instruments
Training and Capacity Building	1 **Building Capacities** to Support the Foundations of Creditworthiness	IBNET, Utility Financing and Creditworthiness, Shadow Credit Ratings, Utility of the Future, Citywide Inclusive Sanitation, Utilities for Climate
Analysis & Diagnostics	2 **Assessing Macro-Fiscal** Conditions, Financial Market Maturity, and Investment Climate	SCD, CPF, InfraSAP for Water, CPSD, OECD Scorecard
	3 **Aligning Water Security with Climate Goals and Economic Development**	CCDRs, CLEAR, Water Security Diagnostics, WICER
	4 **Designing supportive Policies, Institutions and Regulations (PIR)**	PIR framework, PER
Financial Planning	5 **Integrating Financial Sustainability Analysis** in Sector Planning and in WBG Project Cycle	Financial modeling, financial viability analysis, 3Ts analysis
Turnaround Strategies	6 **Turning Around Technical Efficiency and Operational and Financial Performance** of Water Service Providers	Performance improvement plans (Utilities of the Future); PBCs for NRW reduction and energy efficiency, irrigation modernization
Financing Solutions	7 **Developing a Pipeline of Bankable Projects**	Better data and information, market-making, support for project development, pooling projects to reach economies of scale and reduce viability risks
	8 **Creating Markets for Local Currency Financing** and Mobilizing Domestic Finance	Domestic commercial lending and capital markets
	9 **Mobilizing the Full Suite of Funding and Financing** Solutions	Efficient public spending, blended finance, PPP, VGF, commercial debt, microfinance, risk retention instruments, payment- and loan guarantees, WBG Scaling Rewater
Stakeholder Engagement	10 **Developing a Coordinated Approach with Stakeholders**	2030 WRG multistakeholder platforms, principles of engagement with MDBs, donor roundtables, high-level events

Possible Financing Solutions

Leveraging Concessional Resources

Private Sector Mobilization & PPPs
Non or limited recourse project finance

- Individual projects
- Serves transformational investment needs

SOE/ Public Program Financing Platforms
Corporate or structured finance

- New financing sources e.g., ESG, institutional investors
- Take SOEs and sub-nationals to intl markets through asset recycling and revenue securitization
- Free up fiscal space
- Domestic/ international debt finance

Risk Mitigation and/or Sharing Facilities
Financial Intermediaries

- For small individual projects requiring aggregation
- Serves investment needs at national level through existing or new financial intermediaries

…through structures that **blend** various sources of capital for **water and climate-smart projects**

World Bank	Trust Funds, incl. Climate	International Investors	Local Investors
• Loans • Guarantees	• Loan • Grant • Guarantees	• Commercial banks • EM Eurobond investors • Reinsurance companies • ESG investors • Institutional investors • International DFIs	• Commercial banks • Institutional investors • Domestic DFIs

WORLD BANK GROUP
Water

Elements to be Supported by Multi-Stakeholder Platforms (MSPs) for Financing

Understand **funding and financing needs for water and climate goals**

Exchange knowledge on **scalable solutions**

Identify **upstream reforms and enabling conditions** for PSP

Deliver a **financing framework**

Identify financial tools to **reduce lender's risks and borrower's constraints**

Design **blended finance approaches**

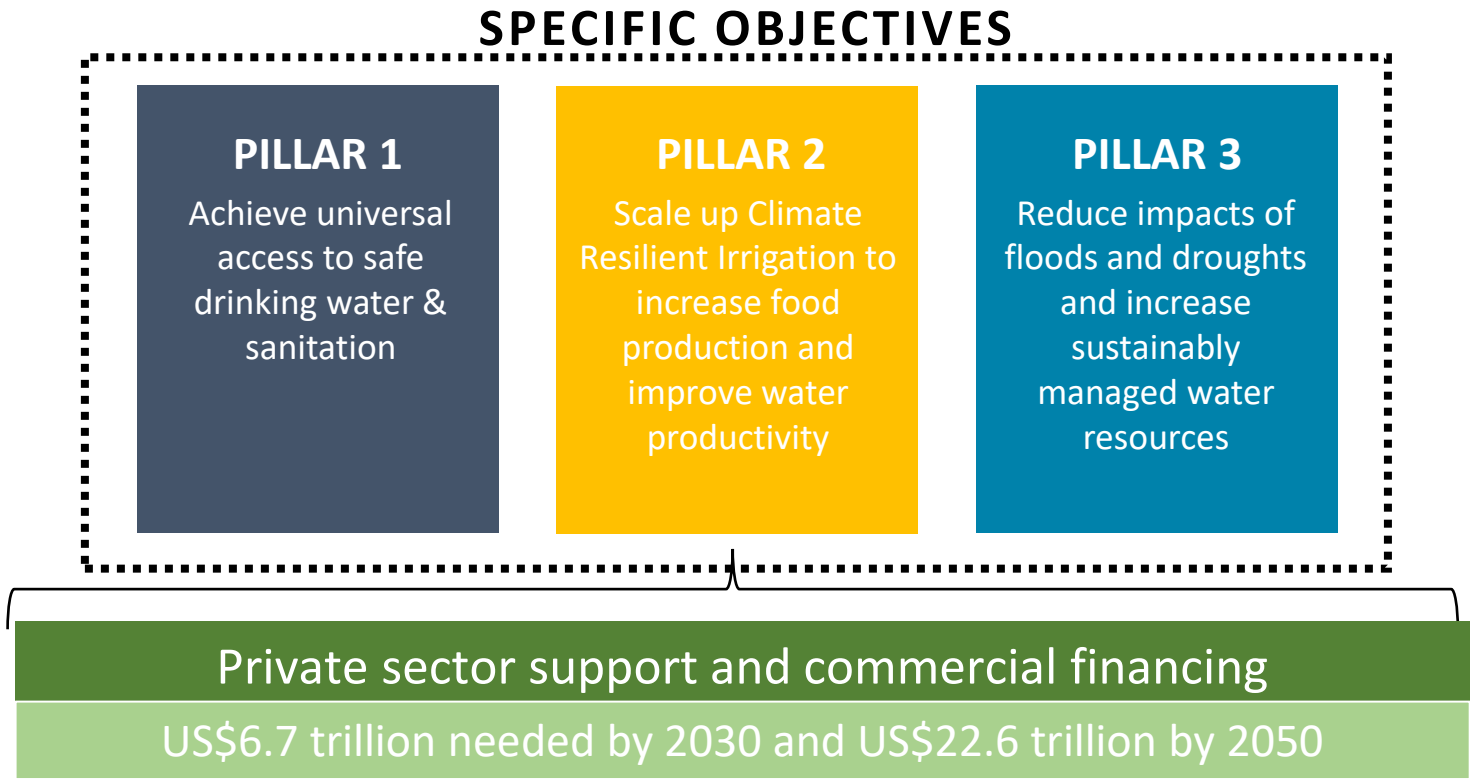
Match **demand and supply for climate finance** and outcomes

Develop **investment strategies** for project design and viability

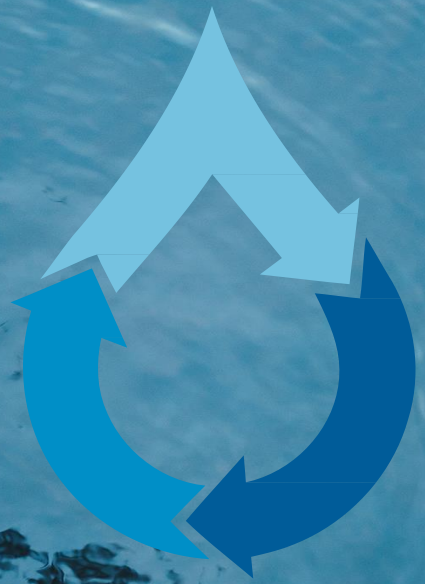
Identify **concrete programs and projects** to advance MSP goals

Fast Track Water Security & Adaptation Global Challenge Program

To **strengthen water security** and **related climate adaptation** through **systems change** and **targeted investments** in water & sanitation, irrigation, water resources management and flood & drought risk reduction.



WBG Scaling ReWater Program



PSLO WATER MISSION - January 23

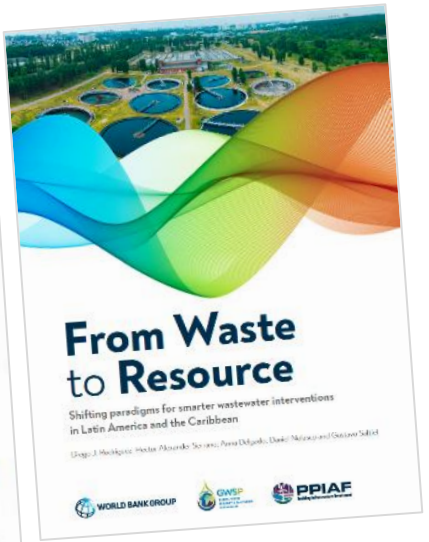
WORLD BANK GROUP
Water

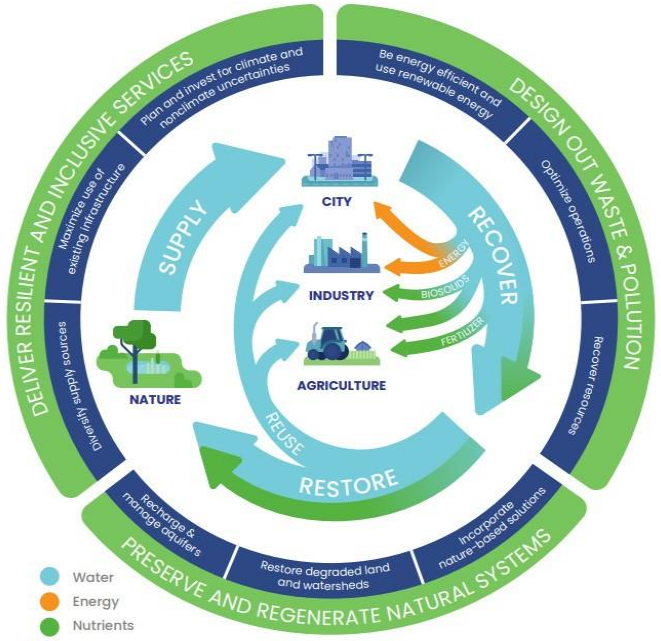
GWSP
GLOBAL WATER SECURITY & SANITATION PARTNERSHIP

Climate Change Adaptation & Mitigation - a key priority for the Water Sector

- Negative impacts of **Climate Change** are primarily perceived through changes in the water cycle and disproportionately affect the poor;
- Investments in **wastewater treatment** infrastructure yield significant mitigation benefits
- **Wastewater reuse is great adaptation mechanisms** instrumental to achieve water security in conditions of water scarcity

Renewed interest in the water sector in wastewater reuse (and desalination) from a circular economy, adaptation and sustainability Perspective





WICER Initiative
Water in the circular economy

WB Desalination Community of Practice

Large flows of public, concessional, and private capital are necessary to offset decades of underinvestment and address present and future challenges

- It is important to facilitate the participation of the private sector not only from the perspective of capital mobilization but also from the standpoint of risk allocation

PUBLIC SECTOR	PRIVATE SECTOR
Improve sector governance, efficiency, and creditworthiness	Use water resources and services efficiently, promoting water stewardship
Create and regulate water pricing mechanisms	Provide debt and equity financing through loans, capital market operations, public-private partnerships, and other structures
Allocate sector resources more effectively and equitably to deliver the maximum benefit for every dollar invested	Provide innovative approaches and expertise via various contractual modalities
Improve sector capital planning to reduce costs	Absorb risk
Crowd in or blend private finance with public funds	Align incentives for achieving targets and efficiency levels to recover costs

Affordable tariffs are essential

- Blended Climate Financing

GREEN CLIMATE FUND

Paris Alignment

Climate Mitigation goals (BB1)

Desalination projects are

not universally aligned

They need to go through specific assessment but usually Paris Aligned

Climate Finance

Typical angle for Adaptation :

Adding a new source of fresh water in water scarce areas

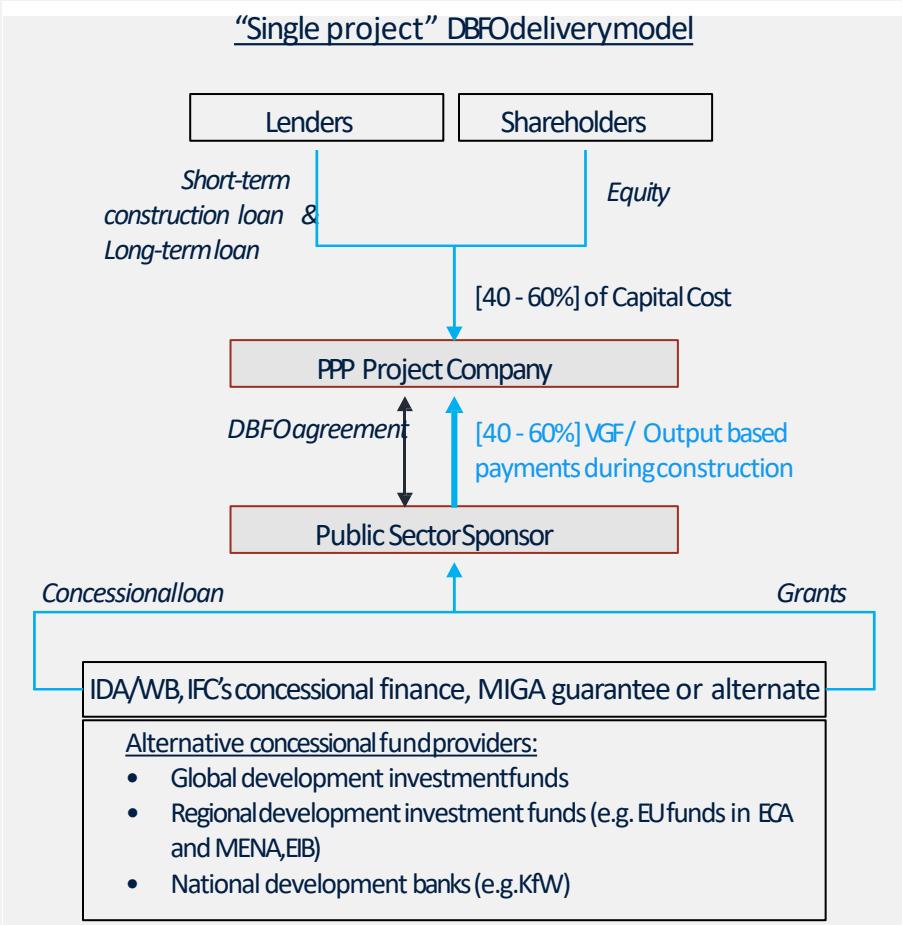
Typical angle for Mitigation :

Replacement of tanker use

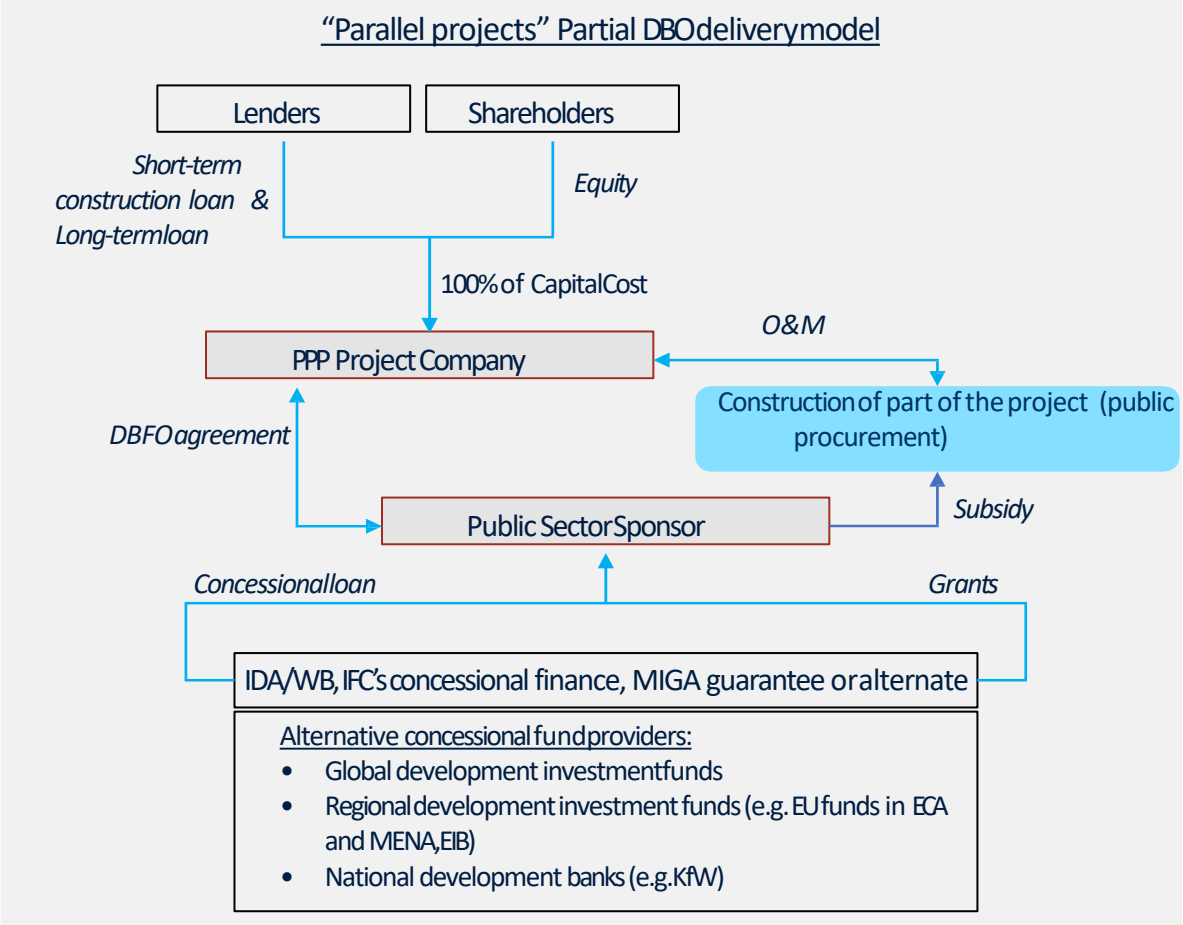
Use of Renewable Energy

Affordable tariffs are essential

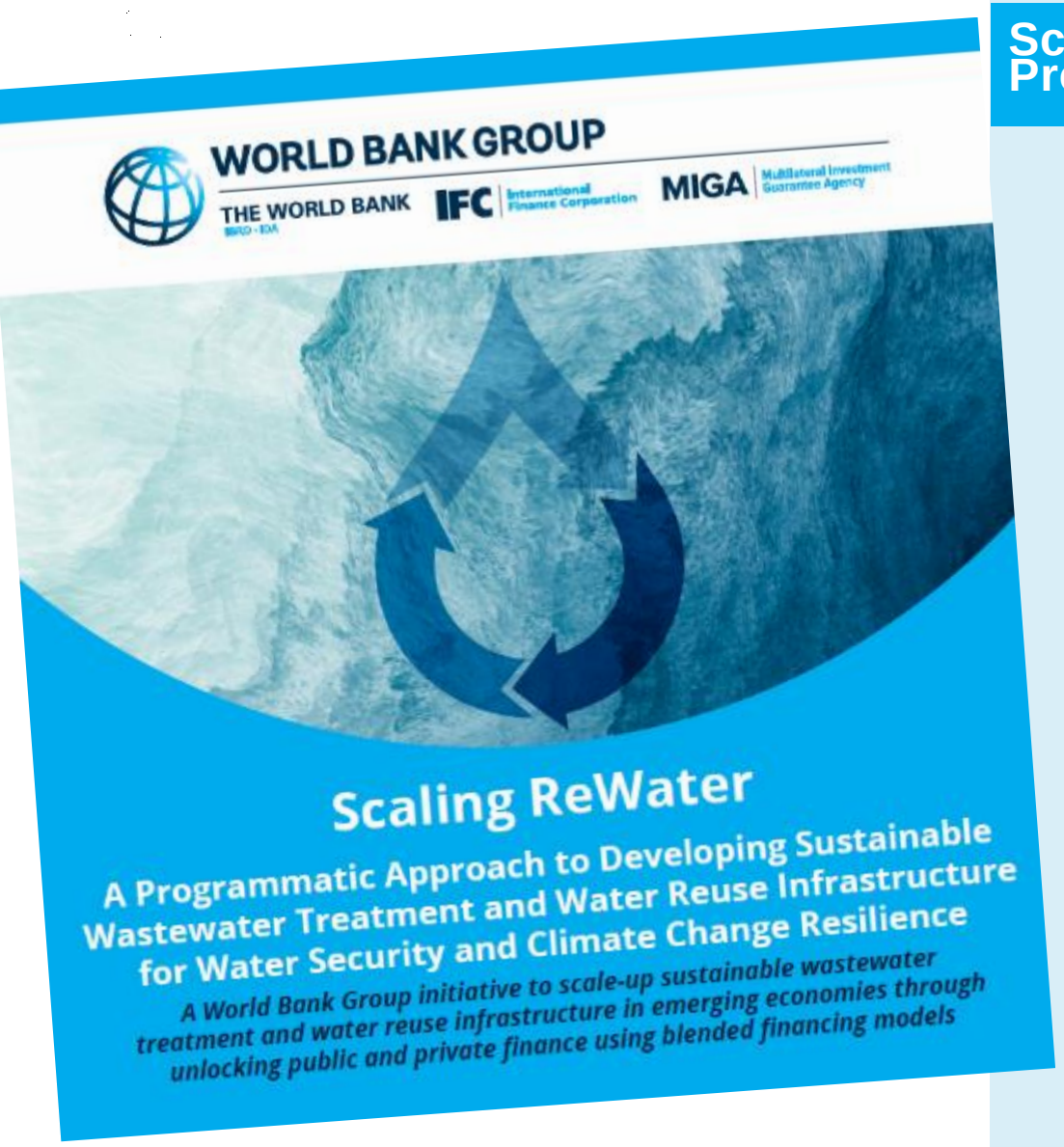
- Hybrid (Public-Private) Financing



Examples: Poznan waste management project, Tibar Bay port, Canada healthcare PPP projects, Clean Ganga Water, Greek Solid Waste Programme



Example: Manila LRT-1 project, Clark Airport, Surburbio Hospital



Scaling Rewater Programmatic Approach

STEPS 1–4
8–12 months
Program/Project preparation and design

STEPS 5 –6
18–24 months
Bidding process preparation
Tender Process & Award
Financial Close

POLICY, REGULATORY AND INSTITUTIONAL FRAMEWORK

- Assessment of policy, regulatory and institutional aspects related to national desalination/reuse markets
- Assessment of national PPP frameworks
- Identification of reforms or measures required

SCREENING AND IDENTIFICATION

- Water security diagnostics and identification of opportunities
- Value for money analysis
- Affordability and financial viability analysis
- Identification of viability gap funding and concessional financing opportunities (including climate financing, green and ESG instruments)
- Market sounding
- Stakeholder engagement

PROGRAM PREPARATION, DESIGN AND FINANCIAL STRUCTURING

- Detailed technical, economic, environmental & social, financial, legal and institutional due diligence
- Financing plan, including concessional and climate financing and credit enhancement mechanisms
- Capacity building for project development
- Suitable sites investigation and site preparation including environmental and social standards/criteria

MOBILISATION OF HYBRID FINANCING & CREDIT ENHACEMENT

- Mobilization of concessional financing and de-risking instruments

TENDERING PROCESS

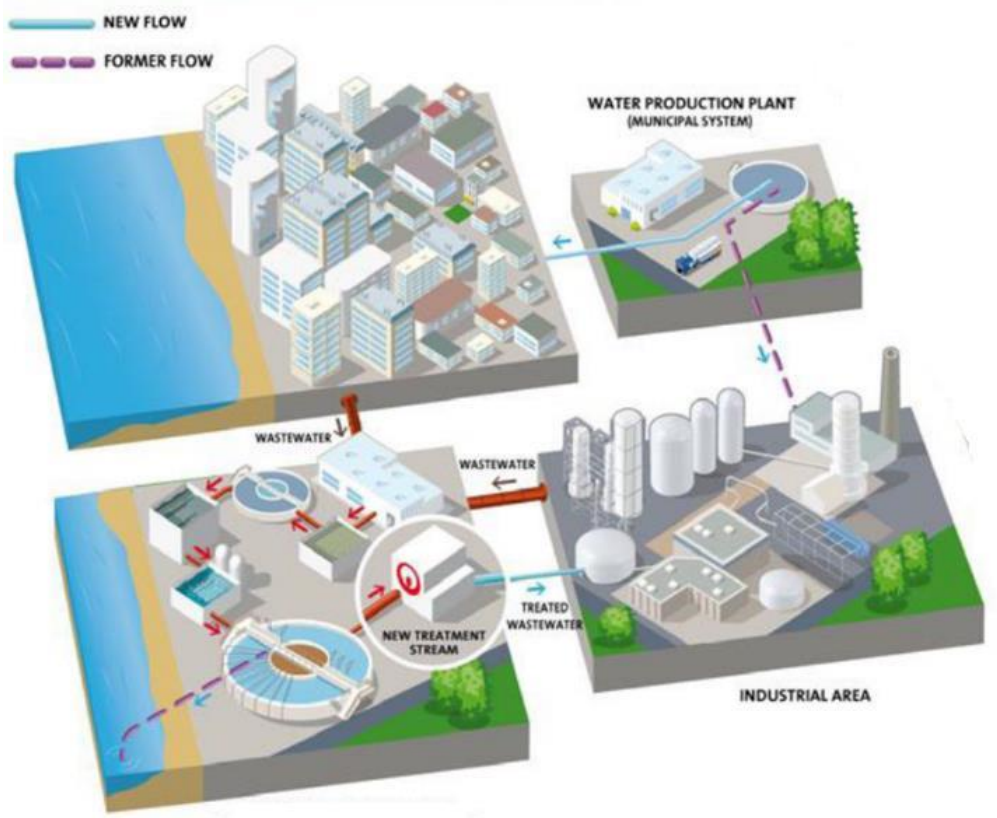
- Adjustment of tender and concession templates to program/project specificities
- Preparation of indicative financing terms
- Market promotion
- Request for qualification
- Bidder consultation
- Request for proposals
- Proposal review
- Signing of project documents

FINANCIAL CLOSURE

- Finalization of EPC and O&M contracts
- Approval of Final project documents
- Finalization of financing documentation

Industrial Reuse in Durban, South Africa

- Durban, the third largest city in the country, was facing a severe challenge of limited water availability and also wastewater treatment capacity (1998)
- PPP contract (BOOT), with a duration of 20 years*
- Project objective: treat and reuse approximately 48 billion m^3 of municipal wastewater for direct reuse in industrial processes.
- Municipality sells wastewater treatment to the concessionaire

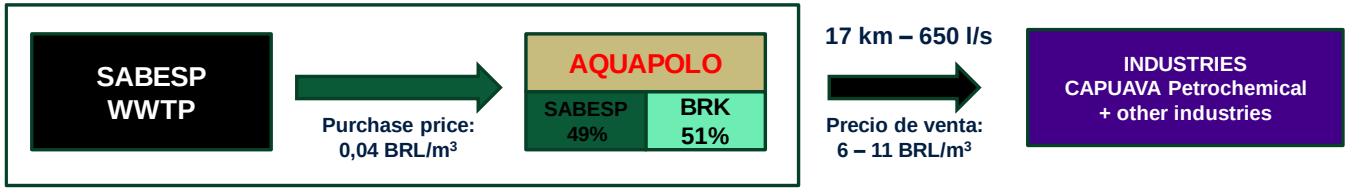


Brazil: São Paulo - Aquapolo B2B

- Aquapolo is the largest industrial wastewater reuse project in South America.
- It is located next to the ABC Wastewater Treatment Plant (PTAR) of Sabesp which transports 650 l/sec of effluent to Aquapolo
- Subsequently, the effluent is treated according to the standards required by the buyers of the ABC petrochemical complex and delivered to them through a 17 km pipeline
- Sabesp is paid for the supply of part of the treated primary effluent, which would otherwise be discharged into the river
- The project has secured a long-term effluent supply contract reflecting the long-term treated water purchase agreement

Long term supply agreement
Back to back with purchase agreement

Long Term Purchase
Take or Pay 2009-2053



Tubería construida por SABESP Operada por Aquapolo