

Chapter 1

Setting the stage

This chapter has two main objectives. It starts by defining more specifically the scope of the overall report, by providing definitions for key terms and concepts and explaining why the report is more specifically focused on mobilising market-based repayable finance for the sector. Second, it recalls the key recommendations that had been made in the Camdessus and Gurría reports in that regard. Finally, it briefly summarises the evolutions that have taken place in the water and sanitation service sector in the last six years in order to assess the current relevance of these recommendations.

1.1. Financial flows for water and sanitation services

There are several types of financing flows to water and sanitation services, each of them with their specific characteristics. For the interest of clarity, the definitions used in this report for the different types of financial flows are provided in Box 1.1 and represented graphically in Figure 1.1.

Market-based repayable finance, *i.e.* loans, bonds and equity, is the subset of financial flows that need to be repaid, including remuneration for the use of capital at a rate set by the market. Such financing is usually provided by various entities (commercial banks, private water service operators, institutional investors via capital markets, private equity funds, etc.) on the assumption that the return they earn on their investment will make it worthwhile, once all risk factors are taken into account.¹ A key distinction between revenues from the 3Ts and repayable finance is that the former can fill the financing gap whilst the latter can only bridge the financing gap. Another important distinction is one of timing. Investments in WSS tend to be lumpy and front-loaded whereas cash-flows from revenues are spread over a much longer period of time. A key purpose of repayable finance is to provide financing up-front so as to pre-finance investments that are repaid over time.

Figure 1.1 shows how repayable finance can bridge the financing gap in water service providers' finances.² On this figure, repayable finance is broken down between concessionary repayable finance and market-based repayable finance. The former refers to loans that include a grant element and are provided by public institutions, such as International Finance Institutions (IFIs), bilateral donors or development banks established at national level.

Box 1.1. Definitions

In this report:

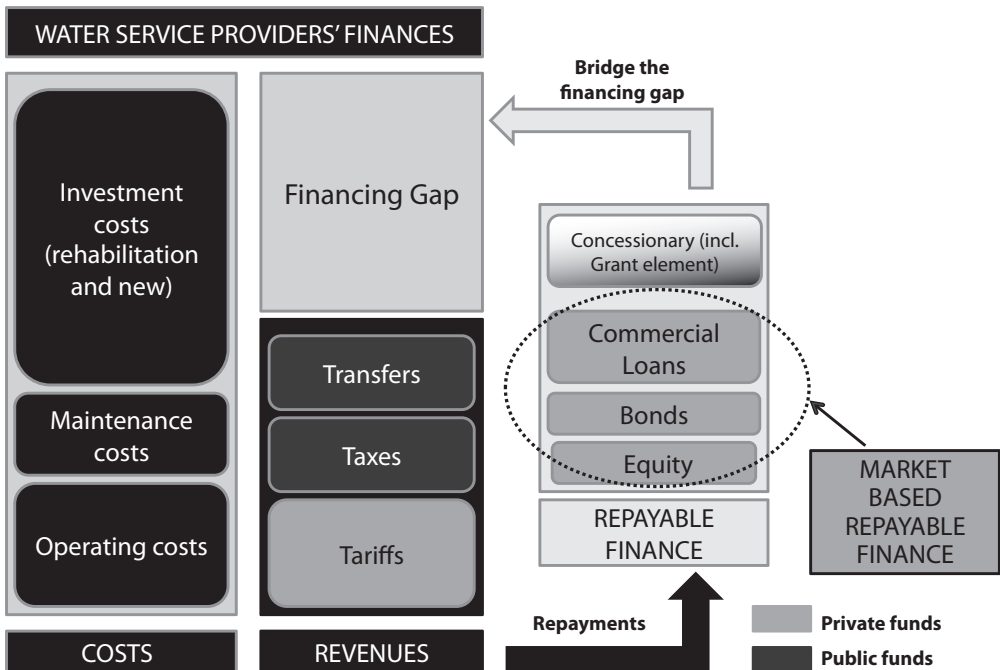
- **Water and sanitation services (WSS)** refer to all water services provided through man-made capital that deal with the supply of drinking water and sanitation services (from basic sanitation to wastewater treatment). These form the focus of the report.
- **3Ts** refer to the mix of tariffs, taxation and transfers from Official Development Assistance (ODA) and other forms of solidarity that provide revenues for water service providers and fill the financing gap.
- **Repayable finance** refers to financial flows that require repayment at a future date plus remuneration for the use of capital, in the form of interest or dividends. This may include loans, bonds and equity and can only bridge the financing gap, *i.e.* help finance upfront investments.
- **Market-based repayable finance** refers to a sub-set of repayable finance, where financing is provided through the market by private actors. This may include private loans, bonds and equity.
- **Concessionary repayable finance** refers to a sub-set of repayable finance, where financing is provided by public actors and includes a grant element, *i.e.* an element which does not need to be repaid or an element that requires compensation at below market rate (such as a subsidised interest rate).
- **“Public funds”** refers to financial flows coming via governments and charitable organisations from taxation and transfers. This may include public investment in infrastructure, public subsidies for operations and maintenance costs or the grant element in concessionary repayable finance.
- **“Private funds”** refers to financial flows coming from users of the service, private WSS providers and private financiers, such as commercial banks, equity investors or bondholders. This includes tariff revenues, private investments (such as household investments in on-site sanitation facilities) and market-based repayable finance in the form of loans, bonds and equity.

1.2. Why focus on market-based repayable finance in this report?

As noted in OECD (2009a), developed and developing countries face key challenges with respect to their water sectors linked to (i) increasing water scarcity, (ii) the need to increase access to water supply and sanitation in developing countries; and (iii) the need to rehabilitate water supply and sanitation infrastructure. These challenges all carry a significant price tag and substantial additional finance will be required to meet them. A recent WHO report estimated that USD 18 billion will be needed annually to extend existing infrastructure to achieve the water-related MDGs, roughly doubling current spending. In addition, according to WHO estimates, an additional USD 54 billion per year will be needed just to ensure continued services to the currently served population (this does not include the additional needs generated by new infrastructure).³

Financing to meet those challenges must come from all available sources, including public and private sources, in the form of revenues or repayable finance. The present report is focused on how repayable finance can be

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*.

mobilised to increase financing to the sector, with a specific focus on market-based repayable finance, for the reasons discussed below.

First, while the main focus of the OECD Horizontal Water Programme was on the ways and means of increasing revenues (or reducing costs) to fill the financing gap in the sector, it was felt that some attention should also be devoted to the way in which repayable finance can be mobilised. In most countries, it will take time to bring about efficiency gains and carry out the necessary reforms to fill the financing gaps, including, first and foremost, tariff reforms.⁴ In the meantime, if the targets are to be achieved, it will be essential to bring in repayable finance to bridge the financing gap, and especially to do so on acceptable terms (financing cost, maturities, requests for collateral etc.). Going to the market for such financing, provided the market remains willing and able to contribute (a critical assumption which is discussed in more details in Chapter 4 on the impact of the financial crisis), is a key way to overcome potential limitations in the availability of public financing.

Second, hopes that direct private investment into and private lending to the sector would provide a significant and growing share of investment have not been fulfilled. The introduction of private sector participation (PSP) was often based on the misconception that private operators would bring financing with them via concession contracts or other similar contracts with investment obligations. According to a recent World Bank study on the track-record of public-private partnerships for urban water utilities,⁵ “earlier expectations for increased private finance have proved unrealistic”. This study points out that private financing of urban water utilities has been limited when compared with other infrastructure sectors, as it represented only 5.4% of the total investment commitments in private infrastructure between 1990 and 2000. Investment commitments by private operators (made in the year of financial closure) went down sharply in the aftermath of the Asian financial crisis, from a peak of USD 10 billion in 1997 to a low of about USD 1.5 billion in 2003, and have not recovered since.⁶ In addition, such investment commitment figures were for the total amounts to be invested over the duration of the contracts, and most of the commitments were for a few large projects, with projects in Chile, Buenos Aires, and Manila representing nearly half the total amount.

In fact, many concessionaires proved unable to borrow from private financiers as originally expected, so actual private investment was much less than initially committed. By contrast, as pointed out by the OECD (2009c), concessions combining private and public financing (such as in Colombia, Guayaquil in Ecuador, and Cordoba and Salta in Argentina) and leases/affermages, where most of the investment was directly financed by the public partner proved more successful at expanding access, a key investment target of many such concessions. Another World Bank study based on detailed

regression analysis of water and electricity PSP contracts (with a data set of more than 1 200 utilities in 71 developing and transition economies) found that it was not possible to conclude that investment always increases with PSP (despite evidence of actual increases in water connections, the number of which increased by about 12% on average).⁷

Last, the diversity of market-based repayable finance is not always acknowledged. Although it has often dominated the debate, private financing via PSP contracts accounts for only a small portion of market-based repayable financing going into the sector. Market-based repayable finance can be provided to either public or private operators: given that publicly-owned utilities serve approximately 95% of the population worldwide, those utilities are likely to require the lion share of repayable finance, including market-based repayable finance for years to come. For example, municipal bonds subscribed by private investors in the United States (Box 2.1) have largely financed municipal (and hence) public operators. This type of financing has therefore the potential to bridge the financing gap much beyond the limited universe of privately operated water service providers. In many countries, particularly developing ones, attracting such type of finance can only be done via financial innovation, as explained below.

1.3. Why is innovation needed to increase market-based repayable finance?

Whereas market-based repayable finance has played a significant role to support the development of water and sanitation systems in OECD countries (alongside public investment), the use of this type of finance has so far been limited in the water sector in developing countries. Market-based repayable finance is either not available with adequate maturities to match the life of the investments or too expensive, particularly when compared to cheaper concessionary finance.

Given that WSS are very capital intensive and financing costs represent a sizeable share of the “revenue requirement” to be covered via the 3Ts, reducing the cost of financing should be a key objective of all water service providers as it can help reduce the need for subsidies and bring tariffs down. The main objectives of financial innovation are to increase access to repayable finance, to reduce the cost of capital and to extend the tenor of financing so as to leverage more repayable financing from a given stream of basic revenues. Financial innovation can be initiated either through the market (*i.e.* by the providers or recipients of finance when they have spotted an opportunity) or with the support of a public sector agency seeking to catalyse market-based repayable financing with limited public funds.

In the water sector in England and Wales, for example, considerable financial innovation has taken place in the last ten years, at the initiative of private companies and their financiers in response to a change in regulatory regime and substantial investment requirements driven by European Union legislation. This, combined with a tightening regulatory framework, meant that financial innovation was needed to lower the cost of capital and improve access to finance as explained (Box 1.2).

Box 1.2. Financial innovation in the water sector in England and Wales

The England and Wales water sector is the only one where privatisation, which took place in 1989, has involved the sale of assets to the private sector (only three other countries, including Chile, the Czech Republic and Belize have experience with outright sales of assets). Remuneration on the invested capital is calculated by applying the “Weighted Average Cost of Capital” (WACC) to a notional financing structure (the rateable value). Ofwat, the industry regulator, sets a price cap every five years in a process known as periodic reviews (PR09 was recently completed with Final Determinations published in November 2009). This approach allows companies to retain the benefits of efficiency gains and financial innovation up to the following periodic review, when the regulator decides on the share of these gains to be returned to customers in the form of price reductions.

Since privatisation, securing access to finance has been critical due to the size of the required investment programme to meet European Union quality improvement targets, which is going to cost over £80bn between 1990 and 2010 according to WaterUK, an industry body.⁸ At the 1999 Periodic Review, the industry regulator allowed a relatively low cost of capital for most water companies, below what they could obtain on the market at the time. As a result, water companies were strongly incentivised to innovate to lower their cost of capital through reaching an efficient capital structure whilst maintaining financial sustainability. Examples of such innovation are discussed below.

- ***A switch from equity to debt finance.*** The Welsh water supplier (Dwr Cymru) was sold by its distressed parent company in 2001 and bought by not-for-profit entity Glas Cymru. This entity, whose sole purpose was to buy Dwr Cymru, financed the entire takeover using bonds thus creating a situation where there is no equity capital in the company. Since the cost of debt was below the cost of equity, this financing structure means Glas Cymru achieved a very low cost of capital.
- ***Mechanisms to allow access to a broader class of bond investors by a broader class of water companies.*** This involved co-operation with large insurance companies (monoline insurers) as guarantors, which also allowed bundling together debt issues by smaller companies allowing them to access bond markets.

These innovations have been effective at reducing the cost of capital and allowed companies to increase gearing (the ratio of debt over equity) from about 20% in 1995 to 66% in 2008 while maintaining investment grade ratings. In addition, longer-term financing has been obtained by tapping into the market for institutional investors, such as pension funds, which matches the long-term capital programmes of the sector.

Box 1.2. Financial innovation in the water sector in England and Wales *(continued)*

One financing structure that combines several innovations discussed above is the *artesian loan facility*, which was created to allow England’s smaller water only companies (WoCs) access to bond finance, as this is usually cheaper than commercial bank finance. With an average company regulatory capital value of GBP 220 million, most WoCs are not large enough to issue bonds individually on commercially viable terms. The Artesian Loan facility provides an “umbrella” under which the WoCs can group together to issue debt at cheaper conditions. The credit quality of the combined bond issue is guaranteed by a so-called “monoline insurer”, which guarantees the bondholders’ demands in the case of failure of one of the firms in the loan structure. Investor security is further enhanced by disclosure agreements and isolating water revenues from other interests in the company. This combination of measures enhancing credit quality allowed small companies with large capital expenditure programmes to raise the required financing at very preferential terms. However, the future of the Artesian arrangement has recently come under scrutiny as monoline insurers’ ability to guarantee against credit default in the current market climate has been questioned by rating agencies (Section 4.1).

Given sharp differences in the state of development of financial markets around the world, what is considered innovative in one country would not necessarily be so in another. In the United States, for example, municipal bond markets have long been used to finance infrastructure investment at municipal level (Box 2.1). The development of such markets in other countries is still limited, however, and would generally be considered innovative particularly in developing countries.

The public sector has a critical role to play in ensuring that financial innovation is used to address critical constraints for increasing funding to the sector. In many developing countries, international financial institutions (IFIs), donors or governments themselves have developed such innovative financing tools rather than the market itself. This is partly a reflection of the fact that financial markets in developing countries are less established. Local banks do not consider the water sector as an area for development, as the sector has a reputation for political entanglements and subsidised pricing. Bond and equity markets are much less liquid, due to the lack of a large investor base.

As the unfolding global financial crisis partly demonstrates, however, financial innovation does not always bring the expected results and it can even create additional problems. The concept of “innovation” often conveys the idea of complex financial structures that are difficult to understand by non-specialists. Financial markets at large have fallen prey to such complexity, as financial institutions took on much more risk than would have otherwise been deemed reasonable or manageable. In the water sector in England

and Wales, for example, some private equity investors have targeted water companies as they were hoping to extract quick returns by loading the companies with debt and using the benefits of a lower cost of capital for their own benefit rather than for investing in the companies (Section 2.2.4). To be effective, financial innovation therefore needs to be well channelled and regulated, an area where public sector agencies have a critical role to play.

Other limitations of innovative financing mechanisms are linked to the frequent weakness of legal and institutional arrangements that govern the water sector, and the lack of sufficient cash flows to cover costs. This is problematic, because it means that many projects in the water sector are hardly bankable and their access to market-based repayable finance is therefore very limited. If marked-based finance is being provided nevertheless and crucial reforms are not being carried-out in parallel there is a serious risk of default. A further limitation resides in the fact that some of the more promising financing mechanisms that are being presented in this report require contextual features, such as well developed local capital and financial markets, as well as institutional and human capacity to devise and manage these instruments, which are usually found in emerging economies, but more rarely in least developed countries where water services are poorest. The applicability of the instruments discussed here therefore needs to be carefully considered on a case-by-case basis.

1.4. Previous recommendations and their follow-up

Many sector specialists have already examined the need to increase financing to the water sector and the potential role that market-based repayable financing could play. The Panel on Infrastructure Financing (referred to as the “Camdessus Panel”) was formed in late 2001 “to address the ways and means of attracting new financial resources to the water field”. The Panel produced a report that neatly captured and distilled state-of-the art sector knowledge and ideas in this area.⁹

The Camdessus report included a long list of recommendations on how new financial sources could be attracted to the sector and how the environmental policy environment could be improved to make the sector more attractive. In particular, the report formulated detailed and concrete recommendations on how market-based repayable finance can be attracted to the sector (Box 1.3).

The report advised that most of its recommendations be implemented by 2006, the mid-point on the way to the Millennium Development Goals and that 2015 should be the next essential check-point, opening the third stage of a strategy leading to universal access and sanitation by 2025.

Box 1.3. Camdessus Panel recommendations to increase repayable market-based financing

Promoting local capital markets and savings

- Governments and central banks should put in place measures to *promote local capital markets* and address problems caused by their own actions in crowding out other borrowers.
- Governments, with the help of IFIs and donors, should be asked to *promote the rating of sub-sovereigns*, to facilitate their financing but also to enable transparency and the tracking of behaviour.
- Governments should consider taking steps to permit the *development of domestic borrowing markets* for sub-sovereigns.
- With appropriate reforms made in the light of lessons from previous experience, *national development banks or specialised financial institutions should develop a role as intermediaries* for channelling external and central government funds, and funds raised in local markets, to sub sovereign bodies.
- *Governments should encourage the creation of credit pools for sub-sovereigns*, with an option of joint and several liability.
- *IFIs and other agencies should extend their use of guarantees* and the issue of local currency bonds to promote local capital markets, extend the maturity of local loans, and encourage the use of local pension funds in the water sector. They should urgently address statutory and managerial obstacles to their further use of these instruments.

International commercial lending

- *Governments, IFIs and banks should encourage the development of local capital markets* to enable better currency matching of revenues with borrowings.
- *IFIs and ECAs should enhance and extend political risk coverage* for projects, including the use of MFI guarantees and relaxation in ECA rules on guarantees and insurance.
- Banks and other lenders should develop and employ *innovative financing techniques such as securitisation or collateralisation of loan-debt obligations* (that is, combining a number of individual project loans into packages, taken up by other lenders).
- A new *Devaluation Liquidity Backstopping Facility* is proposed as one method of mitigating the risk of foreign exchange fluctuations in water projects at the sub-sovereign level.

Box 1.3. Camdessus Panel recommendations to increase repayable market-based financing *(continued)*

Private investment and operation

- Governments and water authorities should *recognise the present and potential role of small-scale water service providers (SSWSPs) and other parts of the local private sector*, and provide a legal framework to encourage greater long-term investments by them.
- *SSWSPs should be encouraged to improve their access to finance* to increase their capacity to invest in the sector and reduce their cost of capital.
- Where public authorities are considering reforms of the water sector, or tenders of various kinds are being drawn up, *private participation should be included as an option*, to be decided on specific grounds of efficiency, cost and effectiveness.
- Donors and governments should be open to financing water projects by *combining public funds with private financing* in transparent and acceptable ways.
- ODA should be available to facilitate water projects managed by private operators under public control – for example *output-based aid could be used to expand networks or fund revenue shortfalls* on a diminishing basis under a concession. ODA could also be used to finance investment in assets owned by the public and operated by the private sector.
- *Guarantee and insurance schemes offered by IFIs, governments and export credit agencies should be expanded in scope*, and the internal constraints on their use should be relaxed.

Source: Adapted from Winpenny, J. (2003).

Since 2003, numerous reports have been published, gathering and circulating additional evidence on the potential role of innovative financial instruments, such as risk mitigation instruments or sub-sovereign lending.¹⁰ The Gurría report, published in the context of the 4th World Water Forum in Mexico in 2006, took as its main focus the demand for finance and the scope for developing the financial capacity of sub-national entities.¹¹ The present report builds on this literature and seeks to summarise current knowledge about attracting market-based repayable finance into the sector.

Seven years down the line, many of the recommendations in the Camdessus and Gurría reports remain highly relevant. The problems for attracting financing are well-known and the potential solutions that were proposed at the time were detailed and sensible. While significant progress has been made on implementing a number of these recommendations (*e.g.* sub-sovereign

lending) more efforts and time for their implementation are still needed. Few of the recommendations contained in the report have been adopted in a comprehensive way or led to radical changes in financing policies and practices. At the operational level, worthwhile initiatives have been taken in order, for example, to increase the use of guarantees, improve the targeting of subsidies or spread the use of revolving funds. These initiatives have remained at a limited scale, however, and have not been sufficient to attract new financing in a significant way (Chapter 3).

1.5. Key evolutions since the Camdessus and Gurría reports

Although the recommendations of the Camdessus and Gurría reports are still highly relevant, a change in emphasis may be required to reflect the changes that have affected the water sector in recent years and the impact of the global financial and economic crisis. Since the late 1990s, the water sector has evolved substantially, which has in turn affected the type of financing that may be required.

The market for water services has evolved rapidly. Following the serious difficulties or collapse of major concession contracts, such as in Jakarta (Indonesia), La Paz-El Alto (Bolivia) or Buenos Aires (Argentina), international private operators have readjusted their strategies and are no longer looking to invest in water services in emerging economies outside China and a few other isolated cases.

As noted in the OECD companion report on PSP,¹² whereas five operators (Suez, Veolia, Thames, Agbar and Saur) accounted for 53% of projects awarded during the period 1990-97, their share had dropped to 23% over the period 2003-2005. The majority of private sector contract activity focuses on management contracts or service contracts, which do not bring substantial financing apart from working capital. This report stated that “the changes in the private sector landscape accompany a trend among “traditional” international players towards shorter, less risky arrangements involving lower or no investment obligations”.

Local operators of various scales, both public and private, have been working hard to fill the expectation gap left by the withdrawal of international private operators. They can be public utilities, local private operators that have gradually increased in size and financial status or small-scale water service providers (SSWSPs). Public water companies have retained their dominant position for the “official” or “formal” provision of water services around the world (*i.e.* leaving aside service provision by SSWSPs, for which coverage figures are not computed at the global level on a comprehensive basis).

In OECD countries, some countries such as the United States, the Netherlands, Sweden or Germany have a strong tradition of public water companies

which have been efficient, for the most part. In the developing world, some public companies have made great strides to improve efficiency and increase coverage. For example, in Cambodia, Phnom Penh Water Supply Authority (PPWSA) has operated a remarkable turnaround over the course of the last ten years. From 1993 to 2006, supply hours rose from 10 hours a day to 24 hours, the number of staff per 1 000 connections dropped from 22 to 4 and the utility added an extra 120 000 connections. Over the same period, its financial situation improved drastically, going from a heavy subsidy to full cost recovery. This turnaround took place after years of deterioration and neglect during the civil war, through the instigation of a culture of change in the utility, tariff increases and substantial external assistance from international donors.¹³ Other examples of successful public utilities include ONEA in Burkina Faso, NWSC (National Water Sewerage Corporation) in Uganda, or even the asset-holding company SONES in Senegal. This being said, the majority of publicly-owned and operated water companies still face significant problems to finance critical operations and maintenance, let alone their development to meet existing and future demands on their services.¹⁴

On the private side, local private operators have significantly increased their market share, which rose to at least 40% of the private sector market by 2007.¹⁵ Strong regional players have emerged in all major regions, spotting opportunities that were not attractive for international operators or buying back the share of their international partners in existing contracts. Some SSWSPs have developed their activities and have become more formally established. In some African cities, they are serving a substantial portion of customers especially in peri-urban areas, such as in Maputo (Mozambique) or in Lusaka (Zambia). They have increasingly become recognised as significant market participants to be reckoned with rather than outlawed or eliminated.¹⁶

The risk profiles and financing needs of these operators are very different from those of international private operators and there are also significant differences within this group of providers. This means that the financial innovations called for by the Camdessus and Gurría reports need to be adapted to this changing set of protagonists and that priorities have changed somewhat. For example, local operators (public or private) are less likely to borrow in international currency and their revenues are in the same currency as their outgoings (except for large pieces of equipment, material costs, etc.), which reduces the exchange rate risk. As a result, providing access to local currency financing at sub-sovereign level has become more urgent and critical than, for example, the establishment of a Devaluation Liquidity Backstopping Facility.

Increasing Official Development Assistance remains critical. The Camdessus and Gurría reports called for a doubling of ODA to the water sector in order to meet the MDGs. Although ODA to the sector has recently picked up (after a slump in the late 1990s), reflecting a real change in donors'

priorities, such massive increase has simply not happened. A large proportion of the additional funds went to a small number of countries and the share of ODA going to the water sector in Sub-Saharan Africa, the region that needs it most, has actually decreased.¹⁷ A few international financial institutions have doubled their commitments. The Asian Development Bank (ADB), for example, launched the Water Financing Program to double its investments in the sector between 2006 and 2010 (to reach USD 10 billion over the 5-year period). To achieve this aim, they increased the use of some innovative financing instruments, such as sub-sovereign lending without a sovereign guarantee, multi-tranche lending (*i.e.* a line of credit for a long-term investment program) and local currency lending. The start-up of the program has been encouraging. By March 2009, the ADB had met about 38% of its target and it remains confident that the target could be met by the end of 2010.¹⁸

Developing country governments have yet to make the water sector a key priority, as the low degree of prioritisation of water and sanitation in their PRSPs reflects.¹⁹ In certain countries, such as Uganda, harmonisation of donor funding policies resulted in fewer donors being involved and an overall decrease in external funds available to the water sector (by 80% between 2004/05 to 2008/09). This is particularly worrying given that, over the same period, Government spending in the sector decreased by one third. Although the sector performed well (following a remarkable turn-around of the state-owned national company, NWSC), the population grew at 3% per year during the same period, which means that substantial investments are required to keep up with population growth.²⁰

In addition, evidence showing that a large proportion of public funds are siphoned away in the form of corruption is preoccupying. According to Transparency International, “corruption may raise the price of connecting a household to a water network by as much as 30%”.²¹ This calls for more oversight over the use of public funds, something the discipline of repayable financing can bring provided adequate safeguards are in place.

Changes in the global environment. Most importantly, the global environment has changed radically since the onset of the financial crisis in August 2007, following revelations about the banking sector’s exposure to sub-prime mortgage debt in the United States. This means that some innovation called for by the Camdessus and Gurría reports may be more challenging to achieve than before, but innovative financing mechanisms are needed more now than ever before and further innovation will be needed.

The financial crisis has triggered a massive shift towards government financing, partial ownership and control of major private institutions by the public sector, including commercial banks (such as RBS in the United Kingdom or Citibank in the United States), insurance companies (such as AIG) or mortgage-lending giants (such as Fannie Mae and Freddie Mac).

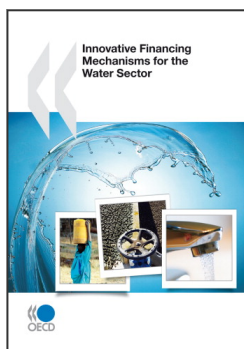
With the “credit crunch” showing no sign of abating, competition for scarce market-based finance is rife and it remains to be seen whether the water sector will be able to rise to the top of the pack for accessing reduced flows of market-based finance and face up to increased competition for public funds. From now, it appears that multilateral institutions will need to provide much needed support to provide repayable finance to the sector, with the hope that these flows would catalyse market-based repayable finance when the latter starts to flow again.

Notes

1. Market-based repayable finance is often referred to as “private finance”. This is a slight misnomer given that a major source of private finance, *i.e.* the households who receive water and sanitation services and pay for those via tariffs or invest directly in their own facilities, is not repayable and constitutes a direct source of revenues for water and sanitation services.
2. The FEASIBLE model, developed by the OECD and discussed in OECD (2009b) identifies several possible financing gaps, *i.e.* the financing (cash flow) gap, the national affordability gap or the household affordability gap. The present report is focused on the financing gap at the level of water and sanitation service providers, who are the primary recipients of market-based repayable finance.
3. WHO (2009).
4. For a discussion of tariff reforms and a review of recent experiences, see OECD (2009d).
5. Marin, P. (2009) as quoted in OECD (2009c).
6. Data from the World Bank PPI database, available on: <http://ppi.worldbank.org>.
7. Gassner, K, Popov, A. And Pushak, N. (2009).
8. Water UK (2008).
9. Winpenny, J. (2003).
10. For example: PricewaterhouseCoopers Securities (2003); Baietti, A. and P. Raymond (2005); Trémolet, S., Cardone, R., Da Silva, C. and C. Fonseca, (2007).
11. Van Hofwegen, P. (2006).
12. OECD (2009c). This report also provides a useful categorisation of new market entrants (Table 1.2).
13. See: adb.org/Water/actions/CAM/PPWSA.asp.
14. Baietti, A. Kingdom, W. and Van Ginneken, M (2006).
15. Marin, P. (2009). This figure is an underestimate, as it excludes China, where recorded PPPs serving 24 million people are based on mixed control between

the international operator and local investors (the latter holding a majority share) and where national operators in small cities may have gone unreported. It also excludes contracts such as Senegal and Cote d'Ivoire.

16. Kariuki, M. and Schwartz, J. (2005).
17. For additional details on ODA trends, refer to OECD (2009a) and OECD (2009b).
18. Presentation by Amy Leung (ADB) at the 5th World Water Forum in Istanbul, 18th March 2009.
19. Trémolet, S., Cardone, R., Da Silva, C. and C. Fonseca (2007).
20. Trémolet, S. (2009).
21. Transparency International (2008). Although the figures have been disputed, they give an order of magnitude.



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