

ECO-Asia Water and Sanitation Program

Enabling Access to Finance for Water Services

The Paul Simon Water for the Poor Act of 2005 strengthens the United States Government commitment to enabling access to safe water and sanitation for developing countries, and supports achievement of Target 10 of the UN Millennium Development Goals to reduce by half the proportion of people without sustainable access to safe drinking water by 2015.

In Asia, the United States Agency for International Development (USAID) implements regional water and sanitation activities through the Environmental Cooperation-Asia (ECO-Asia) Water and Sanitation Program. ECO-Asia develops and implements pilot projects that demonstrate innovative strategies for expanding, improving and financing water services delivery in Asia. One program focus is to develop and disseminate innovative financing mechanisms that help water service providers meet the growing demand for water and sanitation services in the region.

Challenge. An estimated 84 million people in Asian cities do not have access to safe drinking water, and 255 million people lack basic sanitation. With Asia's urban population predicted to increase to over 2.60 billion by 2030, the demand for water and sanitation services in urban areas will only continue to grow.

For many water service providers, expanding their services to meet this growing demand is a significant challenge, since operating revenues are often insufficient, due to low tariffs and relatively high costs brought about by inefficient operations. In many cases, governmental subsidies are not sufficient to finance investments, and often service providers cannot borrow from international development banks, due to in part constraints imposed by national governments or development bank policies.

Domestic banks also typically offer credit at expensive rates and with conditions that most utilities cannot meet. In any case, chronic revenue shortfalls seriously impact utilities' ability to repay debt, and the majority of Asia's water service providers are not deemed creditworthy by most lenders.

As a result, water services providers are developing innovative strategies for leveraging their capabilities in



Increasing access to safe drinking water can have significant poverty reduction benefits, especially for women and children. (Jonathan Perugia)

providers are approaching counterparts to develop joint investment projects and seek “pooled financing.” Such arrangements can create economies of scale and reduce financing risks, and have proven successful in some Indian states. A few countries allow utilities and municipalities to issue bonds. Overall, efforts to establish financing facilities that specialize in lending to water and sanitation utilities will not accomplish much unless the number of creditworthy water service providers grows dramatically.

ECO-Asia Response. ECO-Asia works with progressive partners to develop and implement country and regional activities that demonstrate and disseminate innovative policies and practices on financing water and sanitation services. ECO-Asia supports credit strength assessments of service providers to identify interventions that can help service providers transition from underperformers into successful and trustworthy borrowers. ECO-Asia also supports financing initiatives for water sector investments, such as issuance of municipal bonds, pooled financing arrangements, and revolving funds, as well as facilitates access to USAID's loan guarantee program known as the Development Credit Authority (DCA).

Pilot Activities. At present, ECO-Asia implements pilot water sector financing initiatives in Indonesia and the Philippines, and works with the Association of

Development Financing Institutions in Asia and the Pacific to promote development bank participation in water sector financing.

Efficiency Improvement Loans, Philippines. ECO-Asia works with the Local Water Utilities Administration (LWUA) of the Philippines to develop a new loan product called an Efficiency Improvement Program (EIP) Loan. EIPs target small-scale loans in the range of US\$50,000 to \$500,000 for efficiency improvements. EIP lending focuses on enhancing financial and operational performance in order to improve the creditworthiness of water service providers.

The EIP project supports implementation of Presidential Executive Order 279 or EO 279, (see box)), which classifies water districts into four categories: creditworthy, semi-creditworthy, pre-creditworthy, and non-creditworthy. EO 279 requires creditworthy water districts to seek financing from government financing institutions and eventually from private banks. LWUA is mandated to refocus its lending and technical assistance on the three less creditworthy groups by establishing financing products specifically targeted to each group's specific needs. EIPs target the semi-credit worthy and pre-credit worthy water districts. Resulting improvements will enable water districts to pursue more comprehensive capital investments through LWUA's existing conventional lending windows.

Municipal Bonds Legislation, Indonesia. To facilitate lending for municipal infrastructure, ECO-Asia works with the Indonesian Ministry of Finance on developing implementing regulations and standard operating procedures for the issuance of municipal bonds. ECO-Asia has been a catalyst in bringing Indonesian cities together to understand bond issuance requirements and benefits. ECO-Asia also facilitates linkages between Indonesian policymakers and counterparts from the Ahmedabad Municipal Corporation (AMC), the first Indian municipality to issue a municipal bond, and CRISIL, a ratings, research, risk, and policy advisory company.

Regional Replication through ADFIAP. To encourage development banks to finance water sector improvements, ECO-Asia works with the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) to assist member banks with the development of new loan products. ECO-Asia and ADFIAP also promote regional dialogue on water financing sector among banks, credit rating agencies, capital market representatives (e.g., trust funds, pension funds, life insurance companies) and donors. One important objective of this dialogue is to determine what financing institutions require from potential borrowers.

Water Sector Financing Reforms in the Philippines

The Government of the Philippines enacted Executive Order No. 279 (EO 279) in 2004 to address the need for improved funding within the water sector. The Order mandates comprehensive reform of water sector financing policies.

EO 279 establishes the basic policy and mandate for creation of financially viable water utilities that can efficiently serve the present and future needs of their customers within the constraints of limited financial resources. The Order includes the following major points:

- Utilities must first become operationally efficient in the delivery of their basic services;
- Utilities must eventually manage their operations and pursue their growth paths as commercially viable enterprises independent of government assistance;
- LWUA operates with limited resources and must therefore apply sound market principles to efficiently allocate these resources among competing uses; and,
- Through LWUA and Local Government Units (LGUs), the central government will implement policies and provide assistance towards the attainment of these goals.

EO 279 aims to increase the overall supply of financing into the sector by bringing government financing institutions (GFIs) and private financing institutions (PFIs) into the more creditworthy segment of the market.

Environmental Cooperation-Asia

Environmental Cooperation-Asia (ECO-Asia) is a regional program of the United States Agency for International Development (USAID). The ECO-Asia Water and Sanitation Program is active in Cambodia, India, Indonesia, Philippines, Sri Lanka, Thailand, and Vietnam.

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