



Water Finance
Coalition

Urban utilities and the need to raise additional finance: the role of national public development banks

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Background, hypothesis and research questions

- PDBs are banks located within the public sphere by mandate, ownership or governance.
 - PDBs underused, whilst having high potential to raise finance for achieving SDG 6 and the water-related Paris agreement goals.
 - Past and present roles of national PDBs in financing water-related investments?
 - Strengths and limitations of national PDBs in financing water-related investments?
- 452 PDBs worldwide
 - 80% is 100% government owned
 - Financing \$2.3 trillion annually
 - Represent 8-10% of global public and private investments
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Methodology

Literature review

Finance in
Common
database on
PDBs

Interviews with
67 staff

13 national PDBs
16 IFIs

PDBs annual and
strategic reports

Extent of National PDBs' involvement in the water sector

- National PDBs have been key players in financing water-related investments
 - Particularly, countries in Europe and Latin America host PDBs active across the sector
 - Water-related investments represent on average 5-15% of PDBs' portfolio.
 - Where data exist, PDB finance represents ~10% of water sector investments
 - Within the water sector, most focus is on sanitation and water supply services
 - Predominantly sewerage and wastewater treatment, and large water treatment and desalination works.
 - Less involved in water resources management, stormwater and flood management
 - Climate change adaptation emerging area of investment, though not a key driver
 - Ecosystem and biodiversity protection not a specific area of investment
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Products and services

All PDBs:

- Credit to local governments or utilities for infrastructure development through:
 - 1) balance sheet finance
 - 2) credit
 - 3) project finance via Special Purpose Vehicles

Most PDBs:

- Structuring project finance
- Financing project preparation, through:
 - 1) grants
 - 2) repayable finance if project preparation leads to a bankable project
 - 3) Providing grant funding for technical assistance and performance improvement of utilities and local governments

Some PDBs:

- Influencing sector reforms for improving regulatory frameworks and funding related studies
 - Channeling central government transfers to local governments and utilities
 - Administering dedicated trust funds for the water sector
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Constraints, and PDBs' measures taken to overcome them

	Constraints	Measures
Demand side	Reliance on government funding	Finance strategies / regulation that target role of PDBs
	Skills and knowledge for project preparation	Skills development and dedicated funds for project preparation
	Local governments fiscal space	Evidence on economic and social returns
	Financial viability and operational performance	Dedicated financing and programmes to improve performance
	Project execution capacity	TA for project execution
Supply side	Internal pressure to prioritise other sectors	Dedicated mandate and funds for the sector
	Currency risk	Lending in local currency

IFIs finance to the water sector via national PDBs

- **IFIs investments in the water sector via PDBs are not widespread**
 - Conditional on the presence of national PDBs with a clear mandate for water
 - Specific niche group of clients: mainly mid-sized local governments and utilities
 - **Yet, it offers benefits to IFIs, PDBs and borrowers.**
 - PDBs can on-lend to a more disperse group of smaller and mid-sized borrowers
 - Co-financing between IFIs and national PDBs
 - IFIs often have a good credit rating, and therefore can attract capital at cheaper rates, which allows national PDBs to on-lend at lower rates too
 - National PDBs also provide a good solution for investments in the sector when IFIs do not have local offices
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Conclusions

The main hypothesis was that PDBs are underused in the sector and that there is a potential to further enhance their role

1. Historic evidence that PDBs have played an important role to support water sector development at scale
 2. Well-established role for national PDBs in the water sector in certain regions and countries
 - Though still facing a number of constraints, mostly on the demand side
 3. Many countries where national PDBs exist, either do not have a mandate in the sector or only have a nascent/limited role, implying untapped opportunities
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Recommendations

Constraints		Measures	Recommendations		
Demand side	Reliance on government funding	Finance strategies / regulation that target role of PDBs	For national PDBs	For Governments	For IFIs
		Skills and knowledge for project preparation	Skills development and dedicated funds for project preparation	Contribute to policy dialogues in the water sector and support the development of finance strategies	Develop finance strategies that target public finance to utilities / municipalities that most need them
	Local governments fiscal space	Evidence on economic and social returns	Develop sector expertise / Make more use of South-south cooperation (I.e. staff exchanges and secondments) Support smaller projects and standardisation of processes	Pro actively engage PDBs technical staff in relevant sector finance meetings	Strengthen/ support PDBs capacities and skills in the water sector
	Financial viability and operational performance	Dedicated financing and programmes to improve performance	Clearly articulate the specific contributions they make to the SDGs and climate-related targets through their investments	Develop a climate narrative for the sector finance strategies	Proactively discuss water sector projects within a climate narrative with PDBs Increase cooperation between climate/environmental and water departments
	Project execution capacity	TA for project execution	Support consultations with national and local gov can lift some of the barriers to creditworthiness	Develop and enforce water sector regulations to enhance (financial) performance of utilities.	Ensure that grants, concessional finance and TA provided to overcome the constraints in project preparation, utility performance and technical support Provide TA to project implementation
Supply side	Internal pressure to prioritise other sectors	Dedicated mandate and funds for the sector			
	Currency risk	Lending in local currency	Establish dedicated windows or programmes for 1) project preparation, 2) utility performance improvement, and 3) technical support in project execution	Provide public finance for: 1) project preparation, and 2) utility performance improvement	Pilot operations where IFIs/PDBs co-finance a water project Support smaller projects and standardisation of processes
			Recognise the opportunities of the water sector	Political leadership for guiding PDBs mandate in the water sector	Channel funds specifically for water sector investments through PDBs (in local currency)

Recommendations

For national PDBs	For Governments	For IFIs
Contribute to policy dialogues in the water sector and support the development of finance strategies	Develop finance strategies that target public finance to utilities / municipalities that most need them	Support policy dialogues and finance strategies for the sector that include explicitly PDBs Provide TA to pre-project identification and advocacy
Develop sector expertise / Make more use of South-south cooperation (I.e. staff exchanges and secondments) Support smaller projects and standardisation of processes	Pro actively engage PDBs technical staff in relevant sector finance meetings	Strengthen/ support PDBs capacities and skills in the water sector
Clearly articulate the specific contributions they make to the SDGs and climate-related targets through their investments	Develop a climate narrative for the sector finance strategies	Proactively discuss water sector projects within a climate narrative with PDBs Increase cooperation between climate/environmental and water departments
Support consultations with national and local gov can lift some of the barriers to creditworthiness	Develop and enforce water sector regulations to enhance (financial) performance of utilities.	Ensure that grants, concessional finance and TA provided to overcome the constraints in project preparation, utility performance and technical support Provide TA to project implementation
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Thank you

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