

WIF Riyadh 2016

Provision of Water and Waste Water Service

“Market Failure”



Natural
Monopoly



Spill over Effects
("Externalities")

Tapping into the Private Sector



Modernise and
Expand



Improve
Efficiency



Provide Funding

In an Ideal World

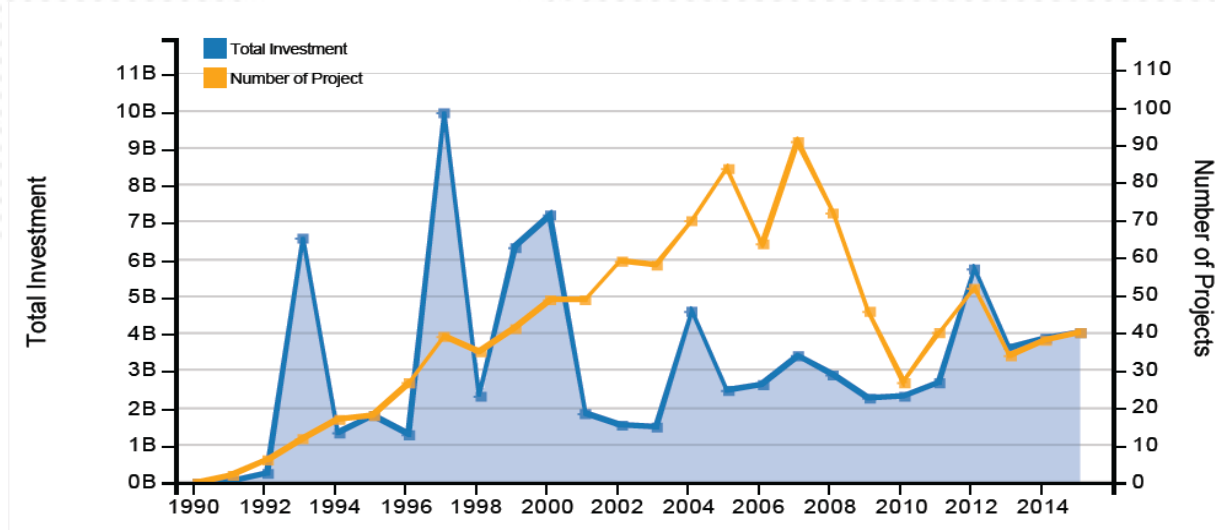
Service providers across the water value chain would:

- Recover costs
- Hold a healthy financial position
- Provide long run sustainable services
- Attract private sector capital to make needed investments
- Generate sufficient revenue from users to service loans and pay recurring costs



But in reality....

- Only 15-20 cents of every dollar invested in the water and wastewater sector came from the private sector in the mid-1990s¹



Source: World Bank PPI Database

- 2008 Global Financial Crisis had marked negative impact on project finance

¹ Pryn & Sunman (2000) "Getting the water to where its needed and getting the tariff right"

Risky Business....



There are inherent features of the water sector that restrain private investment in its infrastructure and services...

1. Capital Intensive with high initial investment and long payback period



- Ratio of Capital investment to revenues is 70% higher than electricity
- Difficult to make bankable
- Investor totally at mercy of the host authorities (importance of strong and independent regulator)

2. Low Sector Rate of Return



- Typically among the lowest of any sector (typically 5-10% - compared to 17-25% for electricity)
- In mature economies considered a very safe investment (but need Government Support)

3. Political Interference



- Politicized commodity that is considered a public good on one hand and a high-value economic input on the other.
- To reach health, economic, poverty or other goals, governments could change water policies and plans at any given moment
- Tariff levels are subject to political interference.

4. Missing Information



- Difficult to project revenues and costs or develop long term business plans and properly assess risks
- Long Term contracts bid for and accepted without the bidder having full information about extent and condition of the network nor how environment will change over longer term

Reasons to be hopeful

- Tariff Reforms
 - Independent Regulators
 - Government Support
 - Low interest Rates
 - Low Bond Yields
 - Pension funds and Insurance providers
- 73% of senior pension funds and insurance providers say they expect to increase their allocation to infrastructure¹
 - Insurer Aviva has said it plans to treble its investment in infrastructure around the world over the next 5 years²



¹According to survey by First, which organises events for institutional investors. Financial Times “Pension Funds crave more infrastructure projects” by Attracta Mooney, 21st October 2016 <https://www.ft.com/content/a05fe960-95ec-11e6-a1dc-bdf38d484582>

² Financial Times (November 6 2016) “Aviva plans further £10bn infrastructure injection”. <https://www.ft.com/content/2b9e2b38-a1df-11e6-82c3-4351ce86813f>

Thanks

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Shukran