



# Fostering effective PSP in the Water and Sanitation Sectors: AfDB's approach

**OECD Water Governance Conference July 2009**

Hela Cheikhrouhou  
Manager Infrastructure Finance  
Private Sector Operations  
**African Development Bank**





# AfDB's enhanced focus of W&S

- The Bank has, since 2000, heightened its focus on the water and sanitation sector
- While the Bank's public financing support is focusing on Rural Water Supply and Sanitation, the Bank's private sector focuses on commercially viable transactions in urban/peri-urban settings.
- The Bank's strategy aims to leverage public resources with private funds and to accelerate the delivery of water and sanitation services



# AfDB has four criteria for supporting private operations...

- As a Development Bank our private sector interventions in the Water and Sanitation Sector will be driven by a balance of :
  - Development Impact
  - Commercial viability
  - Strategic alignment
  - Additionality



# AfDB's Instruments to support PSP in Water sector

ADB will adapt its intervention to meet project specific circumstances

Available financial instruments include:

- **Guarantees** – partial credit & tenor extension where liquidity in the local market can support local currency funding
- **Senior Debt** – long tenors: Up to 15 years (or longer on a case by case basis) – the AfDB has strong credit rating (AAA) which allows for competitive pricing of its loans.- foreign or local currencies on case by case basis
- **Equity** – direct minority equity participation
- **Technical Assistance** – grants for studies, capacity building



# Financing PSP in W&S sectors... (1)

- The Bank will seek to maximize its impact in the water and sanitation sector by strategically financing projects that impact the largest number of beneficiaries
- Owing to the capital intensive, high risk/low returns nature of water projects, the Bank seeks to support projects that have a strong PPP content:
  - To better mitigate project risks and enhance commercial viability
  - To mobilise private and public resources
  - Enhance sector governance
- The Bank's private sector strategy therefore focuses on financing large PPPs
  - Private concessions – BOO/BOT and similar schemes for
    - » Bulk water supply
    - » Urban Waste Water treatment

# Financing PSP in W&S sectors... (2)

- The strategy involves the selection of projects with the following attributes:
  - I. **Strong Public Support**
    - Previous PPP experience or existing framework for PPP in the project country
    - Adequate stakeholder consultation
    - Commitment to project-related agreements
    - BOT, Concession, Lease etc
  - II. **Partnership with Strong Private Sponsor(s)**
    - Track record
    - Financial strength
    - Adequate equity participation



# Financing PSP in W&S sectors... (3)

## III. Trans-boundary projects & projects along development corridors

- That can benefit multiple communities and/or countries.
- Examples are (i) trans-boundary water supply in West Africa (ii) Development Corridor Water Project in Southern Africa

# Financing PSP in W&S sectors... (4)

- IV. Projects with a strong “anchor” client (such as a mining or industrial client)
  - e.g is a project in SA that would serve local communities and mining companies
- V. **Sound Environment** — good policy and legal frameworks & Clear sector level policies on private investor roles
  - transparency & credibility of regulatory framework
  - Clear Policies on tariffs & subsidy mechanism



# Current PPP Projects Under Consideration by AfDB Private Sector

Region	Project Type	Estimated Cost (Million USD)
N. Africa	1 Desalination Plant 2 Waste Water Treatment Plants	TBD 200
E. Africa	1 Desalination Plant	120
W. Africa	1 trans-boundary water pipeline 1 Ground water scheme	120 169
Southern Africa	4 treatment/pipeline schemes	TBD



# The AfDB can provide targeted advisory and project preparation support

- Policy Advice and Technical assistance to governments to enhance the environment for private investment in the water & sanitation sector
- Advisory services to private operators/sponsors on structuring of projects
- Technical assistance to overcome constraints or capacity deficiencies
- Provide project development assistance utilizing existing Bilateral & Multilateral grants to support promising Projects
  - **African Water Facility**
  - **Fund for African Private sector Assistance (FAPA)**
  - **NEPAD IPPF**
  - **Bilateral/Multilateral grants**

# Example of ongoing Bank assistance to African Water Utilities to access Private Financing

- The Bank completed a 2-year pilot assistance to African water utilities to borrow in financial markets is now coming to a close. It has delivered encouraging results, including 2 transactions
- Involved credit rating assessments for 7 African water utilities and were found to be of investment grade
- Led to 1 domestic loan (Zambia) and 1 bond Issue (Uganda)
- The main benefit of engaging with the market appears to be the creation of an impetus for reforms for improved sector governance, efficiency and sustainability
- Helped utilities to meet the high costs of accessing the local financial market. This can dramatically leverage our resources



Thank you for your attention