



Water Projects: Problems, Pitfalls and the Interests of the Poor

Jeff Delmon

Why Water Projects



- ◆ **Moral imperative** – each year 500 million people fall ill, 15 million become economically inactive and 12 million die from inadequate water services
- ◆ **Financial requirements** – US\$800 billions need to be invested in the water sector world-wide over the next decade

The Situation



◆ We need

- Improved efficiency and management
- Improved technology and know-how transfer
- Better infrastructure

The Methods of Involving the Private Sector



- ◆ Management Contract
- ◆ BOT
- ◆ Concession
- ◆ Privatisation

The Methods of Financing Private Sector Involvement

- ◆ Government Finance
- ◆ Corporate Finance
- ◆ Project Finance
- ◆ Export Credit/IFIs
- ◆ Foreign Aid



Water Projects: A Commercial and Contractual Guide

By Jeffrey Delmon

The Problems



- ◆ **Purpose**
- ◆ Source of Funding
- ◆ Commercial Viability
- ◆ Incentives
- ◆ Complexity of Structure

Purpose

◆ Purpose

- Political needs (Poland, Cochambaba)
- Improve cashflows/revenues (Ghana)

Purpose



- ◆ Purpose (cont/d)
 - Efficiency and cost effectiveness
 - Extending services
 - Attract investment

The Problems



- ◆ Purpose
- ◆ **Source of Funding**
- ◆ Commercial Viability
- ◆ Incentives
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Source of Revenue



- ◆ Customers – cross subsidies
- ◆ Taxpayers – subsidies

The Problems

- ◆ Purpose
- ◆ Source of Funding
- ◆ **Commercial Viability**
- ◆ Incentives
- ◆ Risk Allocation
- ◆ Complexity of Structure

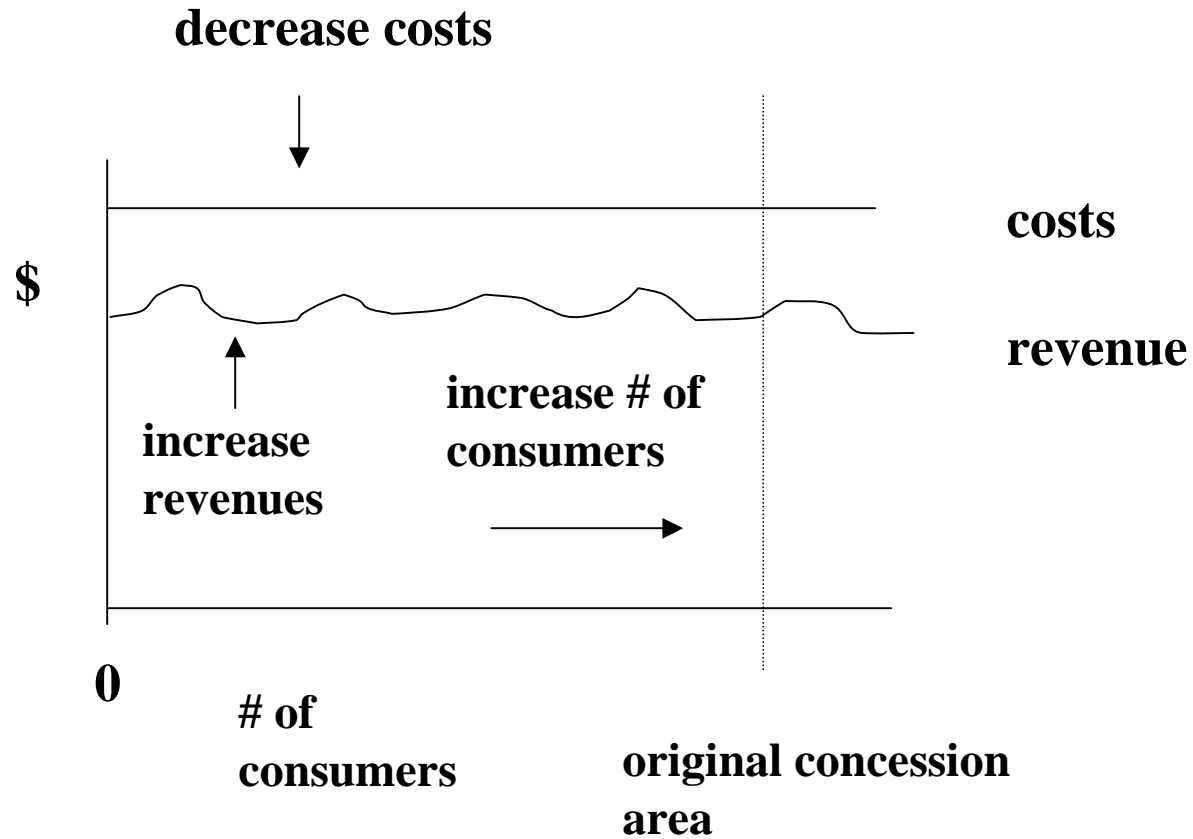
Commercial Viability



◆ Packaging

- Long term – with a view to continued viability
- Flexible – to compensate for eventualities
- Future growth – increase market, increase coverage, open to new consumers, grow with demand

Packaging



Packaging

- ◆ **Decrease costs**
 - set standards
 - regulation to ensure that quality remains
- ◆ **Increase revenues**
 - tariff/subsidy structure that is flexible and provides incentives
 - subsidy, cross subsidy, pooling (Varna and Shumen)
- ◆ **Increase consumers**
 - new connections (La Paz)
 - new areas (Nelspruit)

The Problems

- ◆ Purpose
- ◆ Source of Funding
- ◆ Commercial Viability
- ◆ **Incentives**
- ◆ Complexity of Structure

Incentives



- ◆ Tariff structure – higher revenues for preferred acts – volume management
- ◆ Connection costs – cost recovery to encourage low revenue connections (La Paz)
- ◆ Other initiatives – ensure flexibility (South of France)

The Problems

- ◆ Purpose
- ◆ Source of Funding
- ◆ Commercial Viability
- ◆ Incentives
- ◆ **Complexity of Structure**

Structure for Privatisation

- ◆ Government resources – quality and funding
- ◆ Adviser mandate - scope
- ◆ Efficiency and simplicity – look to practical implementation (London Underground KPIs)
- ◆ Divide the project into phases

Phases



- ◆ Start with limited involvement
 - Improve understanding of local authority
 - Learn how to manage private sector
 - Public acceptance
 - Gathering of information
 - Reduces risk for future involvement

Phases



- ◆ Risks
 - Reduces likelihood of advancing past the first stage
 - Difficult to move from low risk low cost to high risk high cost
 - Reduces competitive pressure



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