COVID 19 Reduces Cash Flow to Utilities

(-) Utilities will be even more strapped for cash than usual

(-) Governments will be less able to finance water projects than usual

(-) Donors will lend more in total but priorities for financing are unclear

(=) Utilities urgently need a source of finance
## Two Viable Options

<table>
<thead>
<tr>
<th>Option 1: Financing facility</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Rapid disbursement can help utilities stay afloat</td>
</tr>
<tr>
<td>▪ Locally-designed solution</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Option 2: Non-revenue water (NRW) performance-based contracts (PBC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Helps water supply situation</td>
</tr>
<tr>
<td>▪ Provides economic stimulus</td>
</tr>
</tbody>
</table>
Option 1: Financing Facility

Sources
- Government reserves
- Commercial banks
- IMF
- MDBs

Facility

Utilities
- WASCO 1
- WASCO 2
- WASCO...n
Estimating the Scale of Support Required

- Cost recovery
- Needed to keep operating
- Reduction in cashflow
- COVID
Estimating Scale of Support with Reforms

- Utility achieves Action 1
- Utility achieves KPI 1
- Gets utility through the emergency
### Sources of Finance

<table>
<thead>
<tr>
<th>Source</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government reserves or tax receipts</td>
<td>▪ Quick&lt;br&gt;▪ Entirely in government's control</td>
<td>▪ Cannot use it on other priority areas&lt;br&gt;▪ Tax receipts going down because of the pandemic</td>
</tr>
<tr>
<td>National government commercial borrowing</td>
<td>▪ Quick&lt;br&gt;▪ Entirely in government's control</td>
<td>▪ Carries a fiscal impact&lt;br&gt;▪ National government must be creditworthy</td>
</tr>
<tr>
<td>Commercial borrowing by the facility with sovereign guarantee</td>
<td>▪ Can allow for finance in local currency&lt;br&gt;▪ Can enable access to commercial finance that would not otherwise be possible</td>
<td>▪ National government must be creditworthy&lt;br&gt;▪ Local financial institutions must be liquid</td>
</tr>
<tr>
<td>IMF</td>
<td>▪ Can be quick</td>
<td>▪ Decision may not be in the control of the Ministry responsible for water</td>
</tr>
<tr>
<td>Multi-lateral resources to national government</td>
<td>▪ May come with technical assistance</td>
<td>▪ Takes longer than other options</td>
</tr>
<tr>
<td>Concessional finance of national government</td>
<td>▪ No fiscal impact for the national government</td>
<td>▪ Only limited quantity available</td>
</tr>
</tbody>
</table>
## Modality of Disbursement

<table>
<thead>
<tr>
<th>Modality</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Grant</strong></td>
<td>▪ Rapid disbursement</td>
<td>▪ Fiscal impact</td>
</tr>
<tr>
<td></td>
<td>▪ Financial burden not placed on the utility</td>
<td></td>
</tr>
<tr>
<td><strong>Loan</strong></td>
<td>▪ Lower fiscal impact for the national government</td>
<td>▪ Financial burden placed on the utility</td>
</tr>
<tr>
<td></td>
<td>▪ Takes time to design, document, and come to terms of agreement</td>
<td>▪ Takes time to design, document, and come to terms of agreement</td>
</tr>
<tr>
<td><strong>Guarantee</strong></td>
<td>▪ Risk is shared between the national government and the financiers (e.g. commercial banks)</td>
<td>▪ Requires utilities to already have access to commercial loans</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td>▪ Utility never has to return the money, or to pay any set interest rate</td>
<td>▪ Not appropriate if utilities are wholly publicly-owned</td>
</tr>
<tr>
<td></td>
<td>▪ Facility may be able to recover some or all of its investment</td>
<td></td>
</tr>
<tr>
<td><strong>Hybrid models</strong></td>
<td>▪ Some mixes (e.g. loan paired with a grant) can help utilities gain experience with loan conditions and establish a repayment track record</td>
<td>▪ Increased complexity in structuring and managing the hybrid model</td>
</tr>
</tbody>
</table>
Option 2: NRW-PBC

- Takes advantage of the expertise and incentivized performance of specialized private sector firms
- Retains control of utility operations and assets

An incentivized form of outsourcing technical and construction activities related to NRW reduction

 NRW Reduction Contractor

$ for outputs

 NRW-PBC

Utility

$ for Services

Customers

$
Results in Better Cash Flow

- Reduce physical losses by 25%
- Reduce commercial losses by 25%
- Increase collections by 10%

You can move from an operating cash deficit to an operating cash surplus.

- Less water sold
- Service worsens and assets deteriorate
- Operating deficit

- More water sold
- Service improves and assets are well-maintained
- Operating surplus
- Cash available

Reduce spending
### Examples of Successful NRW-PBCs

<table>
<thead>
<tr>
<th>Location</th>
<th>Results Achieved</th>
<th>Emergency Catalyst</th>
</tr>
</thead>
</table>
| Kuala Lumpur, Malaysia    | ▪ Saved 117 MLD of water  
▪ Avoided capital expenditure on alternative water supply sources                                                                 | ▪ City was running out of water  
▪ Emergency water rationing was entering its 5<sup>th</sup> month                     |
| Bangkok, Thailand         | ▪ Saved 165 MLD of water  
▪ Increased water supply in a large city                                                                                                          | ▪ City was losing about 40% of water produced                                          |
| Sao Paulo, Brazil         | ▪ Increased revenue by US$72 million over 3 years (of which 75% was kept by the utility)  
▪ Reduced under-reporting of consumption by 41 MLD, through meter replacement  
▪ Collected an additional US$43 million                                                                 | ▪ Estimated that the utility was losing revenues for 1,000 MLD                        |
| New Providence, The Bahamas| ▪ Reduced the utility’s EBITDA loss by over 50 percent (US$10 million), contributing to reduced subsidies from the Government  
▪ Saved 30% of production (17 MLD)                                                                                                             | ▪ Utility was running an operating deficit for 7 years                                 |
Cashflows from a Stylized NRW-PBC

Project IRR: 29%
Structure for Privately Financed NRW-PBC

- Specialized Contractor
- Management Expertise
- Equity
- Debt
- NRW Reduction Co. (SPV)
- NRW Reduction
- PBC
- Performance-Based Payments
- Escrow Agreement
- Revenue Escrow Account (at Bank)
- Bill Payments (less Performance-Based Payments)
- Services
- Customers
- Bill Payments
- Contractual relationship
- Service flow
- Key: Money flow
- Performance-Based Payments

NRW Reduction Co. (SPV)

Customers

Utility

Revenue Escrow Account (at Bank)

Bill Payments

Services

Bill Payments

Management Expertise

Equity

Debt

NRW Reduction

PBC

Performance-Based Payments

Escrow Agreement

Money flow

Performance-Based Payments

Contractual relationship

Service flow

Key:
Templates and Resources Already Exist

- Contract
- Data
- Advisor
- Baseline

- Water balance
- Number of connections
- Hydraulic boundaries

Operational Manual
The use of Performance-Based Contracts for Non-Revenue Water Reduction

April 2018

Output of the Global Program on Developing Good PBC Practices for Managing NRW

## Competitive Market of Service Providers

<table>
<thead>
<tr>
<th>Name</th>
<th>Home country</th>
<th>Countries of experience implementing NRW-PBCs</th>
</tr>
</thead>
<tbody>
<tr>
<td>JOAT</td>
<td>South Africa</td>
<td>Botswana, Honduras, Malawi, Mozambique, Nicaragua, Nigeria, South Africa, Suriname, Swaziland, Tanzania, Zambia, Zimbabwe</td>
</tr>
<tr>
<td>MIYA</td>
<td>Spain</td>
<td>Bahamas, Botswana, Jamaica, South Africa, The Philippines</td>
</tr>
<tr>
<td>SEURECA (part of Veolia)</td>
<td>France</td>
<td>Guinea-Bissau, Cameroon, Ecuador, Mexico, Peru, Trinidad &amp; Tobago, Venezuela, Zambia</td>
</tr>
<tr>
<td>SUEZ</td>
<td>France</td>
<td>Jamaica, Colombia</td>
</tr>
<tr>
<td>VINCI-WMI</td>
<td>France</td>
<td>Algeria, Barbados, Benin, Cameroon, Colombia, Djibouti, Dominican Republic, Jamaica, Morocco, Tanzania, Vietnam</td>
</tr>
<tr>
<td>VITENS-EVIDES INTERNATIONAL</td>
<td>The Netherlands</td>
<td>Curaçao, Haiti, Kenya, Malawi, Rwanda, Tanzania</td>
</tr>
<tr>
<td>WRP Engineers</td>
<td>South Africa</td>
<td>Botswana, South Africa</td>
</tr>
</tbody>
</table>
Q&A