DCA: Private Sector Finance for Water

United States Initiative
World Water Forum 2003

Enhancing Access to Clean Water and Sanitation: Innovative Financing

Advances in Johannesburg's Water Sector Goals

Until recently, USAID administered two credit programs, focused on only two development sectors - microenterprise finance and urban infrastructure, including water distribution and waste water treatment. Over the past few years, the experience gained through the administration of these programs has resulted in an improved and reformed approach to USAID credit financing. This approach, the Development Credit Authority (DCA), emphasizes the mobilization of local private capital through the establishment of risk-sharing relationships with private financial institutions in USAID-assisted countries. Now, with DCA, we have the ability to use these credit enhancements in all the development sectors.

USAID is currently examining the world market for private debt financing and working closely with overseas missions in an effort to identify bankable projects and risk-sharing partners in the water sector.

The Office of Development Credit (ODC) is engaged with a range of private sector domestic and international partners including the Environmental Technologies Trade Advisory Group, the International Private Water Association (IPWA) and various Chambers of Commerce. ODC is meeting with private sector water companies (both on the supply and waste water management sides) to determine whether local currency debt financing is available and useful to their efforts. Where it is useful but not available, DCA guarantees may be offered in conjunction with Mission or other USAID Operating Unit led training and technical assistance efforts to mobilize local investment.

This effort is designed to identify both partners and opportunities for risk sharing arrangements in private sector led finance ranging from large-scale water initiatives in the formal sector to small-scale farmer cooperative well programs in the informal sector. DCA can gather up all components of the private sector for successful water outcomes. Results of this fact finding effort will be made available to the other agencies of the US Government who are engaged in working together with the private sector to achieve the Millennium Challenge Goals.

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Applications of DCA to the Water Sector

South Africa

USAID/South Africa proposes to support the commitments made under the Johannesburg Agreements of the World Summit on Sustainable Development by investing in a water and sanitation initiative targeted, in recognition of current economic and demographic trends, at urban areas. The objective of the initiative is to increase the quality and quantity of water and sanitation services, particularly for the poor, by increasing the investment in and improving the management of water and sanitation services in urban areas. This initiative will (1) make use of technical expertise established already in South Africa, in the Municipal Infrastructure Investment Unit (MIIU), (2) employ clear and independently monitored performance standards, and (3) take advantage of credit enhancement where needed through the USAID Development Credit Authority (DCA) program.

Through this three-pronged approach, management improvements will be matched with capital investment, resulting in expanded quality and quantity of water and sanitation services. This proposal will build on successful financing of water projects in the past such as in Johannesburg where DCA helped place loans with ABSA Bank.

During Secretary of State Colin Powell (left foreground) and USAID Administrator Andrew Natsios' (right background) trip to South Africa, they visited a USAID-supported medium scale enterprise program to observe the potential impact of DCA.

Egypt: Private Sector Participation Takes a Giant Leap in South Sinai

The Ministry of Housing and the South Sinai governorate agreed to outsource the operations and maintenance for the entire water system for South Sinai — plants, pumping stations, and networks in the nine cities of Ras Sidr, Abu Redeis, St. Catherine, Abu Zinaima, Tur Sinai, Sharm El Sheikh, Dahab, Nuweiba, and Taba. The contractor supplies labor, equipment, and tools for all parts of the system that are not under an existing service contract.

Currently, private sector participation in the infrastructure sectors is limited in Egypt, far less than many other countries that were forced to bring in the private sector at an earlier point. Under this arrangement, the governorate focuses on contract management and collections, and holds the contractor accountable for performance. In a radical departure from prior service contracts, the arrangement is through a performance-based contract, with the contractor's compensation being based on meeting certain standards.

- Fulfillment of poor people's water-related needs is crucial to the eradication of poverty.
- Water contributes to economic development through its use in agriculture industry and transport; to human development through improved health conditions as a result of hygiene practice.
- The United States proposes local currency investment guarantees, coupled with technical assistance, to encourage private investment in water services - leveraging millions of dollars in investment.

DCA's support will facilitate greater PSP in the water and wastewater sector by introducing the utilities and the local financial markets to the concept of private finance and operation in infrastructure. It will also encourage the extension of local currency loans of suitable maturities for infrastructure projects. Finally, it will demonstrate the viability of the private sector to provide higher quality, lower cost services to the water and wastewater sector.

As services improve, this arrangement will stand out as a good example of how public services can be outsourced, increasing confidence in the viability of private sector participation to provide effective utility services on an affordable basis.