



Hibrid Finance Schemes at Water Tribune

This week's e-waterexpo.net session at the Zaragoza Expo was fully integrated in the thematic week on Water Economies and Finance. Experts from Uganda; Tanzania; Jordan and USA (Washington DC) were connected in 'real-time' with the Water Tribune auditorium discuss together with financial specialists Hybrid finance schemes. Participating experts included Aldo Baietti from the World Bank Institute, Alain Mathys from Suez Environment (Paris), was representing the private sector and Nicola Zaporiti from the International Finance Corporation in Washington DC, and thematic week coordinator on Water Economies and Finance, Josefine Maestu.

"Since current financing and risk instruments in water transactions have not been able to thwart losses during periods of crisis, many operators have moved away from taking on these risks directly. Fine-tuning of risk or guarantee instruments have been helpful in mitigating certain risks but essentially the profile of many Public Private Partnerships (PPP) transactions have materially changed. The private and public partners are now sharing the risks more equitably since the post crisis era", noted session coordinator, Aldo Baietti.

At the e-waterexpo.net session participants also highlighted the trend of increased risk awareness of private investors shifting risk allocation towards models that blend financing from both public and private sources. Hybrid finance schemes have emerged to



accommodate the paradigm shift in the appetite for risk and to take advantage of the comparative strengths that public and private partners both bring to the infrastructure finance market.

Biaetti, concluded that "hybrid schemes seem to have evolved because of two principal weaknesses in the financial markets: the lack of reliable sources of equity funds (that is, counterpart funds) in purely public schemes and lack of depth in local debt markets which precludes sourcing long-term financing to render affordable tariffs. It has been interesting to learn from the experts in participating countries if this also applies to their region".

With the support of thematic week coordinator Josefine Maestu, the Water Tribune and the World Bank Institute, the Global Development Learning Network has been connecting countries with Zaragoza to enlarge the debate at the Water Tribune to a global audience. During this week's upcoming e-waterexpo.net session, we will look at why many international operators have turned away from taking financing, demand and even commercial risks arising from conventional BOTs or concession arrangements.

The case of Casablanca

The City of Casablanca has made good use of its natural and human resources to maintain its leading position in North Africa. It hosts not only the biggest port, but it is also a major business hub and prominent financial marketplace attracting many industrial companies. During the last 10 years, Lyonnaise des Eaux de Casablanca (LYDEC) has helped build the city's infrastructure by rehabilitating an estimated 10,000 hectares of peripheral urban districts that need to be connected to utility infrastructures and services.

In 1997 the Urban Community Council of Casablanca, after severe flooding incidents in previous years, entrusted LYDEC with a delegated concession management contract to distribute electricity, drinking water and waste water services to over 4 end users in Casablanca, Ain Harrouda and Mohammedia.



By opting for a delegated management contractual system, the local authority retains long-term control of delegated services, preserves asset ownership and retains responsibility for decision making on major objectives. This leaves responsibility for managing investments and day-to-day operations of the utility services to the private sector while the public authorities monitor management of services and tariffs, and approves strategic and technical choices. A technical monitoring committee (CTS) ensures that contractual commitments are fulfilled.

[For more information on this project visit, www.suze-environment.com]

A fresh look at Water Tribune

"We need to look further for other water supply alternatives and management options, beyond the conventional supply-side", says thematic week coordinator Josefina Maestu. "The two key aspects that define the water sector now and in future are increasing water scarcity and more expensive infrastructure. During this thematic week, alternatives and serious options, like the 'water-market' as a dynamic instrument in integrated water resource management, were examined and debated. Where scarcity joins demand for resources, the 'water-market' can have a number of positive impacts", Maestu explains, "like the increasing efficient use of water. We need to have a new look at ways to separate economic growth from the rapidly increasing use of water or apply effective negotiations when disputes arise. We need to focus on a more integrated development."

At a number of sessions participants also explored possible usage options of the 'water-markets' concept. These included using water-markets as an instrument for reorganization and increasing efficiency of water use by working as a complement for governmental participation, and as a tool for conflict resolution.

These discussions were part of the second objective of this thematic week on Water Economies and Finance, to analyse efficient water management promotion methods and adequate financing of investments in water infrastructure. A major outcome of this thematic week on water economies and finance were concrete proposals to improve understanding of the development and application of economic instruments that will help to deal effectively with scarcity, pollution, draught and flooding resulting from climate variability. It also helped to address issues around economic development.



Water Allocation System

The WAS tool is a steady-state annual model, explained Franklin Fisher, who is the Carlton Professor of Macroeconomics, Emeritus at the Massachusetts Institute of Technology at Zaragoza Expo this week. "A country or region is divided into districts. Per district, demand curves for water are defined for household, industrial and agricultural use of water. To assure sustainability, extraction from each natural water resource is limited to the annual average renewable amount. Allowance is made for treatment and reuse of waste water and for inter-district conveyance. This procedure is followed using actual data for a recent year and projections for future years".

Fisher continues explaining that environmental issues can be applied to this model in different ways: water extraction is restricted to annual renewable amounts; an effluent charge can be imposed; the use of treated wastewater can be restricted etc.

The WAS tool permits experimentation with different assumptions as to future infrastructure. As an example Fisher says, "The user can install wastewater treatment plants, expand or install conveyance systems, and create seawater desalination plants. Finally, the user specifies policies toward water. Such policies can include: specifying distinct price structures for particular users; reserving water for certain uses; imposing ecological or environmental restrictions. This is where social values that are not simply private values come in. Given the choices made by the user, Fisher says, "The model allocates the available water so as to maximize total net benefits from water. These are defined as the total cost consumers are willing to pay for the amount of water provided less the cost of providing it". In addition, the MYWAS, the Multi Year Water Allocation System, is an even more powerful tool because it permits consideration of a sequence of years or seasons.