



SUSTAINABLE, INCLUSIVE AND RESILIENT URBAN WATER SERVICES IN MOZAMBIQUE  
INVESTMENT PROGRAM 2022 - 2032

# Creating a Bankable Water Company: The Requirements of the Financial Markets

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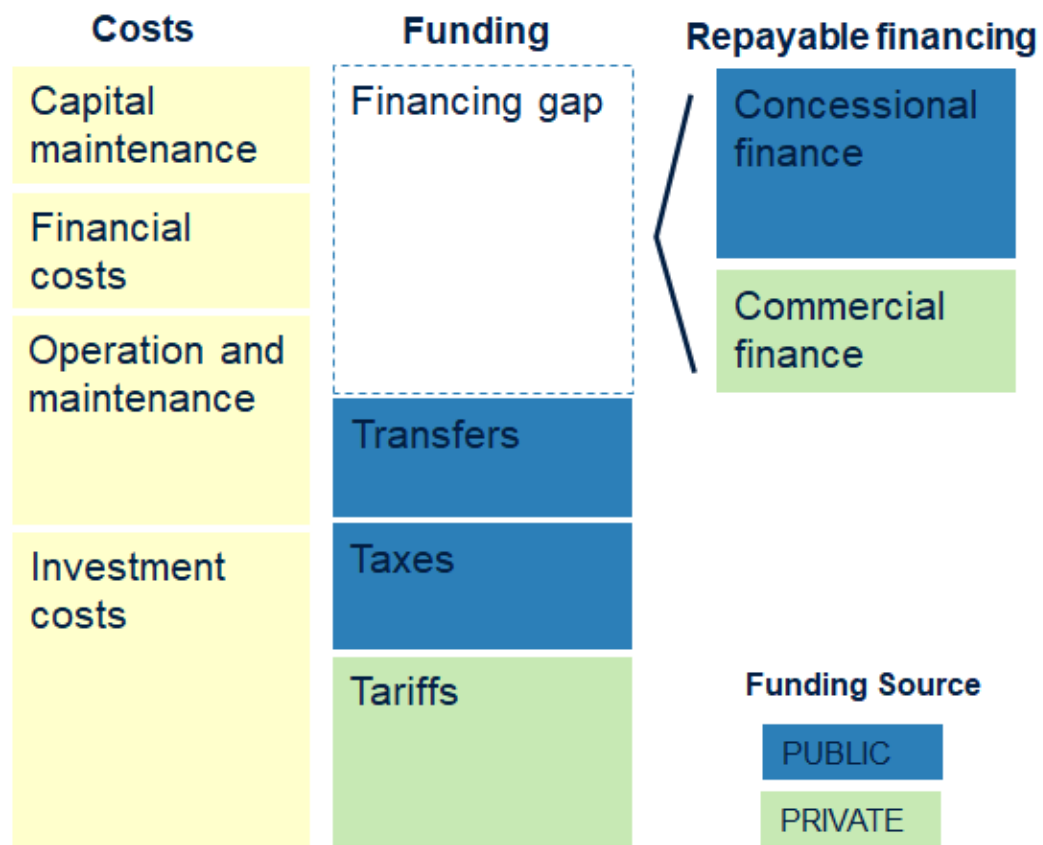
# FIPAG's context and the “parting” point

- ✓ The Mozambique WSS sector has made recent progress to improve the institutional and regulatory framework which positively affects the investment and financing environment:
  - Creation of regional companies
  - Recent debt repayments;
  - Decree 41/2021 for Tariff Indexing and Adjustment Mechanism published in the Republic Gazette on June 18
- ✓ Recent **Policy, Institutions and Regulation assessment (WSS PIR)** and **Public Expenditure Reviews (PER)** Diagnostics
- ✓ The existence of a **local dynamic private sector** offers an important entry-point to improve the management of water supply and sanitation services through **new service delivery models**, including through **improved regulatory oversight**
- ✓ Sector Medium Plan investment plan (PASA) , and investment program for rural water supply at the national level (PRONASAR). Significant investment needs to meet SDGs

# ...Why is there a need to be “Bankable” ?

All countries, regardless of their state of development, need repayable financing

## Water service provider's finances

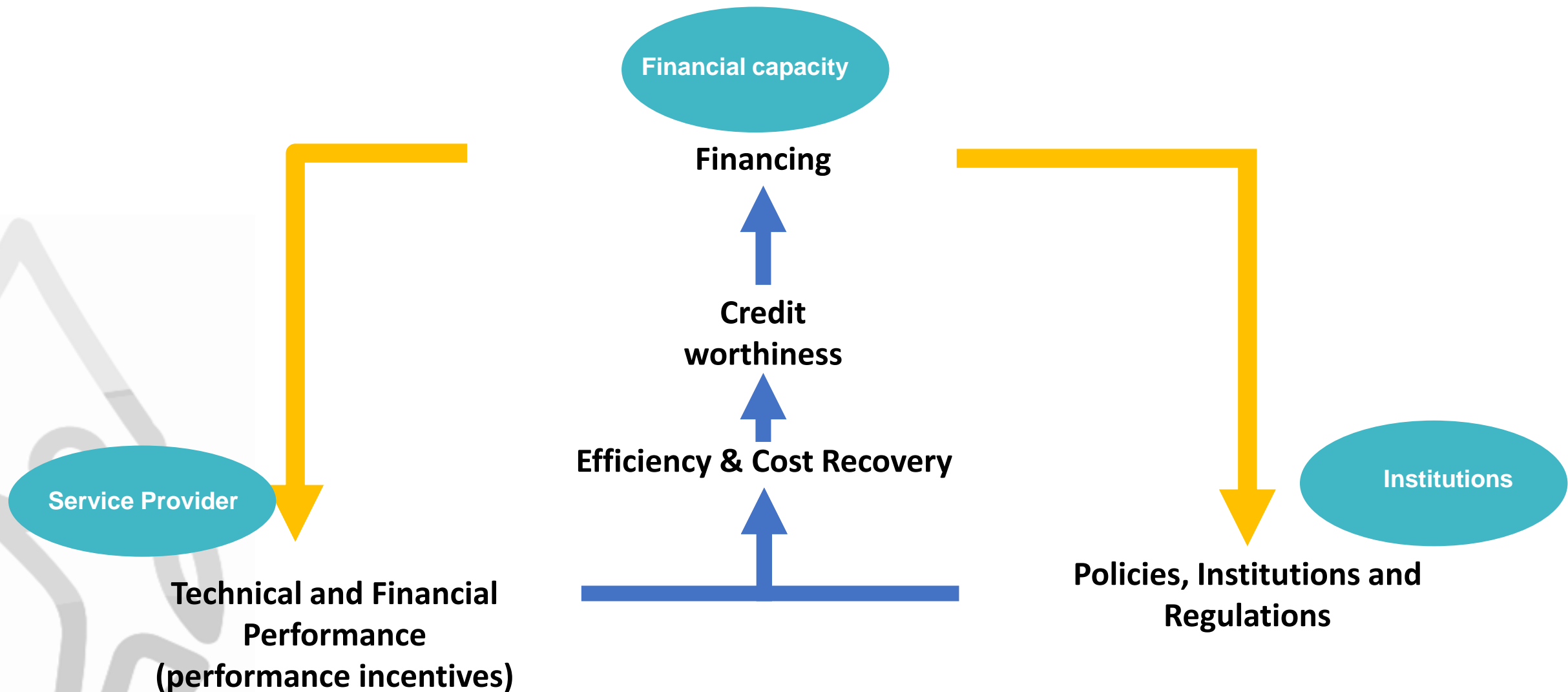


Vast majority of repayable finance comes from concessional finance from development finance institutions with a grant element.

But, meeting the **SDGs** requires leveraging **commercial finance**, particularly domestic commercial finance.

**BUT, accessing commercial finance requires utilities to be creditworthy!**

# There is a virtuous circle: governance + performance + financing



# The road to Creditworthiness is full of challenges..... which often leads a to a “Slippery Road”



**Operating Cost Coverage Ratio >120% of O&M**

5

10

# With the focus on operations, policies, institutions and regulation, the “slippery slope” can start to be reversed

## Service providers must reduce costs and free-up wasted resources

Invest in more capital-efficient solutions

Implement asset-management systems

Reduce non-revenue water

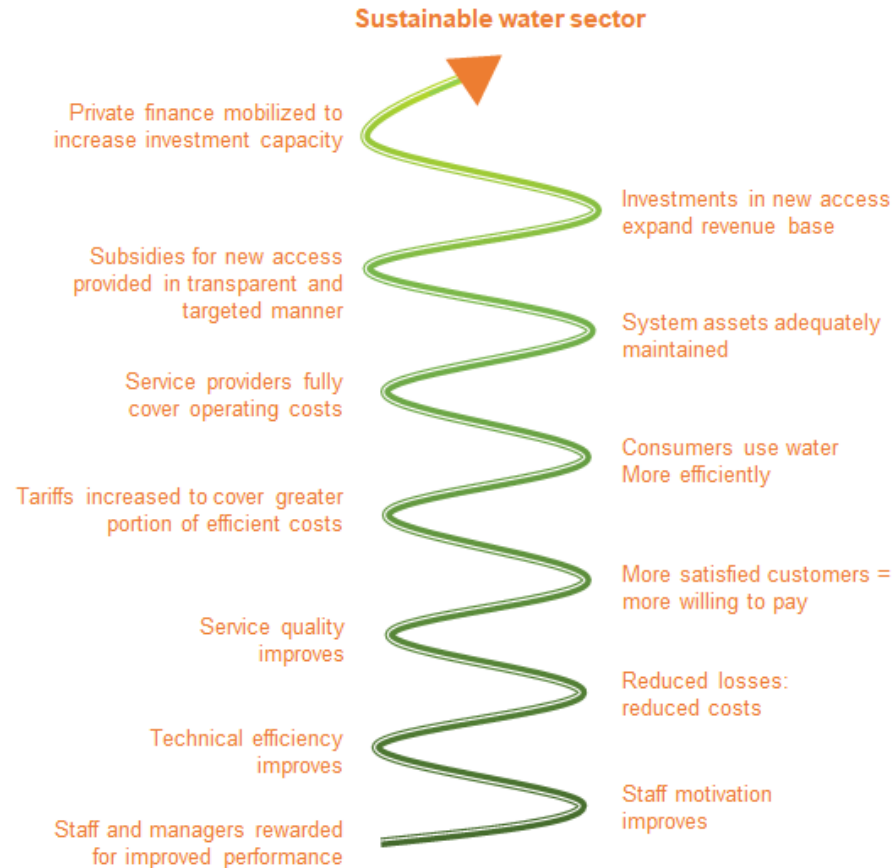
Improve collection rates

Reduce energy costs

Maximize reuse and resource recovery

Professionalize staff

Enhance governance arrangements





# Being creditworthy helps utilities stay creditworthy



## Creditworthy?

- Better able to provide desired quality of service and coverage
- Improved financial performance

## Not creditworthy?

- Limited improvements due to limited ability to do repairs, maintenance, and investment

## Creditworthy?

Investments to improve performance and increase coverage

## Not creditworthy?

Investment on an ad hoc basis and based on politically priorities

## The virtuous circle of creditworthiness

Improved  
Operational  
and Financial  
Performance

CAPEX  
Planning

Financial  
Resources  
Required

Invest in  
CAPEX

## Creditworthy?

Well-structured and prioritized multi-year investment plans  
Assess operating and investments decisions within a rigorous economic and financial framework

## Not creditworthy?

CAPEX defined by political priorities

## Creditworthy?

Resources available from revenue

## Not creditworthy?

Rely on budgetary transfers

# How can the sector be sustainably financed?

Grants / subsidies	Concessional loans / public finance	Credit enhancements
<p><b>Results-based subsidies,</b> <i>e.g. to support access extension</i></p> <p><b>Capacity-building and training</b> <i>e.g. training of borrowers and lenders</i></p> <p><b>Technical assistance</b> <i>e.g. sensitize banks to market opportunities, assess water investment projects, project preparation, shadow credit ratings</i></p> <p><b>Support water sector pooling / grouping to access larger commercial finance providers</b></p>	<p>Provide <b>liquidity to commercial finance providers</b></p> <p>Blend <b>concessional with commercial finance</b> to soften lending terms</p> <p><b>“First loss” agreements</b></p> <p><b>“Patient capital”:</b> equity participations at below market-rate return expectations can signal commitment</p>	<p><b>Guarantees:</b> reduce risk perception, leading to lower interest rates and longer tenors</p> <p>Revenue intercepts, escrow accounts: to secure access to funds and <b>reduce risk of non-payment</b></p>

supply, commercial finance )



# The Utility of the Future: Efficient, Transparent and Accountable



Uruguay: Following a long-term reform process, improved operational & financial performance which enabled OSE to earn a favorable investment grade credit rating and tap capital market financing through bonds in 2017, helping the utility sustain investments to achieve universal WSS access.



## *CWI Performance Summary 2019/2020*

Score	>85	71 to 85	61 to 70	51 to 60	41 to 50	31 to 40	<=30
Number of Utilities	0	2	2	10	19	11	2
Rating	AAA	AA	A	BBB	BB	B	No Rating

Source: WASREB Impact Report 2019/2020

**Angola: Luanda  
Bita Water Supply  
Guarantee Project**

**First ever IBRD loan guarantee in water of \$500M has enabled Angola to leverage around \$1.09B in private investment in bulk water supply supplemented by IBRD financing for network expansion for the poor**

# Key Take-Away Messages

- ✓ Focus on achieving **financial sustainability** and **creditworthiness** to close the infrastructure gap: (i) Build a **stable and reliable institutional and regulatory environment**; and (ii) Improve **technical and operational efficiency** and performance;
- ✓ A host of options exist for **service providers to tap commercial and blended finance mechanisms** to improve and expand service delivery. Likewise, a range of **contractual options with the private sector** is available to help service providers improve performance (NRW, Energy Efficiency, Others) and expand services
- ✓ In this moment FIPAG is very well placed to focus on two items with significant dividends for **FIPAG's creditworthiness**: (i) Continue to **improve MIS and operational and financial performance**; and ii) Make full use of the **recent Decree with provisions for automatic tariff adjustments**.



THANK YOU for your attention!

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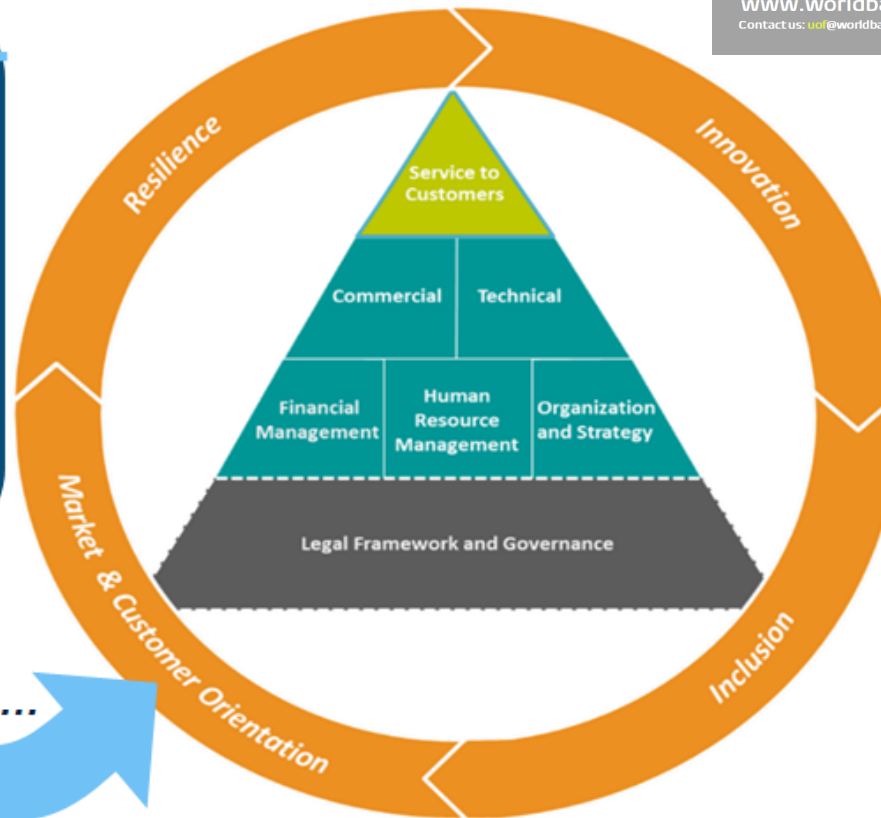
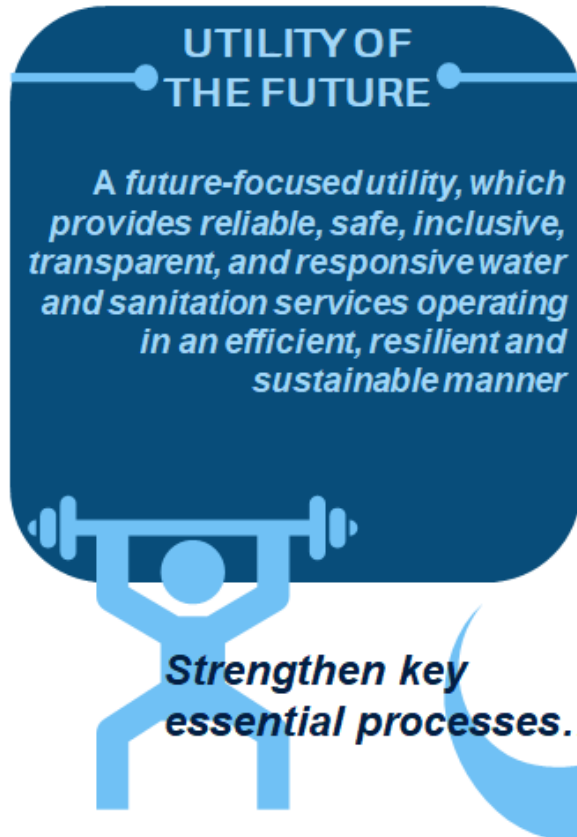


# Utility of the Future

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...building on best global practice from partners such as Águas de Portugal (AdP) & American Water Works Association (AWWA).