

Issue Brief: IFC Improving Access to Water

AT A GLANCE:

- Water is a critical resource across many sectors and shortages pose risks to economic growth and the environment around the world. The water sector is grappling with the challenges of access and quality, combined with concerns about resource availability.
- About 1.1 billion people in developing countries lack clean drinking water, 2.6 billion lack adequate sanitation and 1.4 million children in Africa and Asia die annually from water-borne diseases. Yet public funding for water is still limited and historically, private sector participation has been constrained.
- Water usage is at its highest level in the agricultural sector, which accounts for 70-85 percent of water consumption in Africa, Asia and the Middle East. In high-income countries, industry accounts for 59 percent of water usage. At the same time, fresh water is not managed well, with up to 90 percent of sewage and 70 percent of industrial waste released into rivers.
- Water is often priced below cost of source and service as it is typically not considered an economic resource. There is a political and social reluctance to introduce cost-reflective tariffs, which leads to little or no cost recovery and insolvent delivery institutions.
- Because water is not properly valued, it is wasted and water resources are misallocated. It also prevents economically viable projects.
- IFC has an unprecedented opportunity to take a lead role in bringing private investors into the global water sector and uniting demand- and supply-side interests in addressing the issues of access, scarcity and quality. We are actively engaging private and public players across the continuum through project development and innovative financing.
- IFC is working to increase access to water for the most economically disadvantaged people. While it is widely believed that the poor cannot pay for water, they often have to pay *more* for their supply than their wealthier counterparts because of limited access to the formal distribution system.

Private Sector Participation in Water

- The public sector has traditionally financed development of water infrastructure (90-95 percent). But private participation is needed to fill the financing gap. Private flows to the water sector collapsed in the 1990s, and global investors retreated. Local and regional investors emerged.
- A significant amount of investment, beyond the capacity of the public sector, is required to support the development of a minimum infrastructure platform for water. Investment needs are in water supply, waste-water treatment and reuse, demand-side infrastructure improvements,

maintenance, and governance of the sector. Private participation, which could play a key role in financing water investments, could also bring the technical and managerial capacity to the sector.

IFC's Strategy in the Water Sector

- IFC has invested in the sector since 1993, focusing on extending reach and access, as well as supporting sector technologies. Between FY02-FY06, IFC invested \$1 billion in water & sanitation infrastructure.
- Beginning FY09, IFC aims to increase private participation in water by:
 - **Developing a pipeline of bankable projects** through project development activities and the transfer of know-how and technical expertise through partnerships;
 - **Providing financing solutions** in order to extend the reach of core products , implement innovative financing approaches and scale-up the development impact of investments;
 - **Supporting a cultural shift** within the sector so that people begin to understand that water is a risk to business and client companies and promoting several initiatives to encourage this shift;
 - **Working across the public-private continuum**, strengthening links with the World Bank Group and external partners to raise awareness and support for new models to address water challenges;
 - **Using innovative financing to stimulate** greater private sector investment in water. We will do this by:
 - Extending debt and equity project finance products to water and sanitation projects;
 - Combining concessional and commercial finance to suit the needs of water and sanitation projects and companies, including the use of output-based aid;
 - Increasing participation in municipal finance to projects and municipalities;
 - Reaching smaller projects and companies through wholesaling and advisory services through financial intermediaries;
 - Providing seed capital to clean technology and clean production initiatives.
- **Prioritizing investments** by expected level of development impact, resource intensity and return, as well as the level of complexity and resources required to realize the market opportunity;
- **Developing a regional filter** to prioritize urgency of investment needs taking into account existing infrastructure, population and level of urbanization, extent of industrialization, the regulatory framework, and water scarcity.

Notable Achievements

- **Water Distribution:** IFC provided a total of \$70 million in equity to Manila Water Company to develop new raw water sources and to expand distribution of water services to the east and southeast areas of the Manila metro area. IFC supported Manila Water's non-revenue water reduction programs and the expansion of sewer and sanitation services.
- **Water Treatment:** IFC provided \$15 million in quasi-equity and \$10 million in straight equity to Asia Environment in China during FY 2008 to manage projects on a Build-Operate-Transfer and Transfer-Operate-Transfer basis in the water and wastewater sectors. China has the highest

liver and stomach cancer rates in the world. These types of cancer have been associated with water pollution. These projects are expected to significantly contribute to public health and environmental improvements, including a reduction in water-borne diseases.

- **Industrial Water:** In FY08, IFC provided \$11.1 million in equity and \$20 million in debt to support the regional expansion plans of Metito, an international desalination, water, and wastewater treatment specialist. The financing was used to privatize municipal and industrial wastewater treatment sectors.
- **Irrigation:** IFC provided a \$30 million loan to Jain Irrigation, India's largest provider of high-tech micro irrigation systems to reduce water usage and increase efficient water delivery. More than 2000 farmers benefited from the program which also improved the company's food-processing facilities.

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