Framework for Progress Towards Financial Viability
- WSS Service Delivery-

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Contents

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1. Financial Viability and Service Sustainability

What is it and Why Financial Viability Matters?

- Financial Viability: The service generates enough finance to Sustain itself.

- Sustainability of service: Continuity and Growth to meet future needs.

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1. Financial Viability and Service Sustainability
-Creditworthy Utilities are High in the Ladder-

Levels of Financial Sustainability

Fully Creditworthy	Financially Sustainable + Country Conditions and Developed Financial Markets
Becoming Creditworthy	Financial Sustainable + Credit History
Financially Sustainable	Revenue + Other Reliable Resources Covers Full Cost of Service Providing and Sustaining Service
Operating Cost Recovery	Profitable in Any Given Year But Not Sustainable in Long-Term
Pay-As-You-Go Recovery of Cash Outlays	Capital subsidies Essential to Keep Utility Afloat
Unviable Loss Making Utilities	Capital & Operational Subsidies to Keep Utility Afloat

2. Merits of Water Service Sustainability

Sustainable Water sector management means efficiently providing safe, reliable, and easily accessible water as well as reliable sanitation and waterways protected from pollution. Sustainability also means being resilient and adaptable to extreme weather events that may contribute to issues such as flooding and scarcity

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3. Operational and Financial Efficiencies

- Operational and Financial Efficiencies are interconnected.

- Cost Recovery is basis for financial viability and hence service sustainability

3. Operational and Financial Efficiencies
-Utility Funding and Financing-

Actual Cost of Service (from accounts)

Adjustment from: bench-marking, expert judgement

Accruals

Operating Expenses (Cash)

Actual Cost of Service	Adjustment	Reasonable Annual Cost
Depreciation	We consider this in capital costs	Depreciation
Provision for bad+doubtful debts	Actual fair estimate of non-payment typically (1-collection ratio) x revenue	Provision for bad+doubtful debts
Other Expenses		Other Expenses
Chemicals	Similar to electricity	Chemicals
Electricity	Water sold + NRW x kwh/m^3 produced x \$/kwh	Electricity
Labor	Connections x staff/1000 connections x average staff costs	Labor

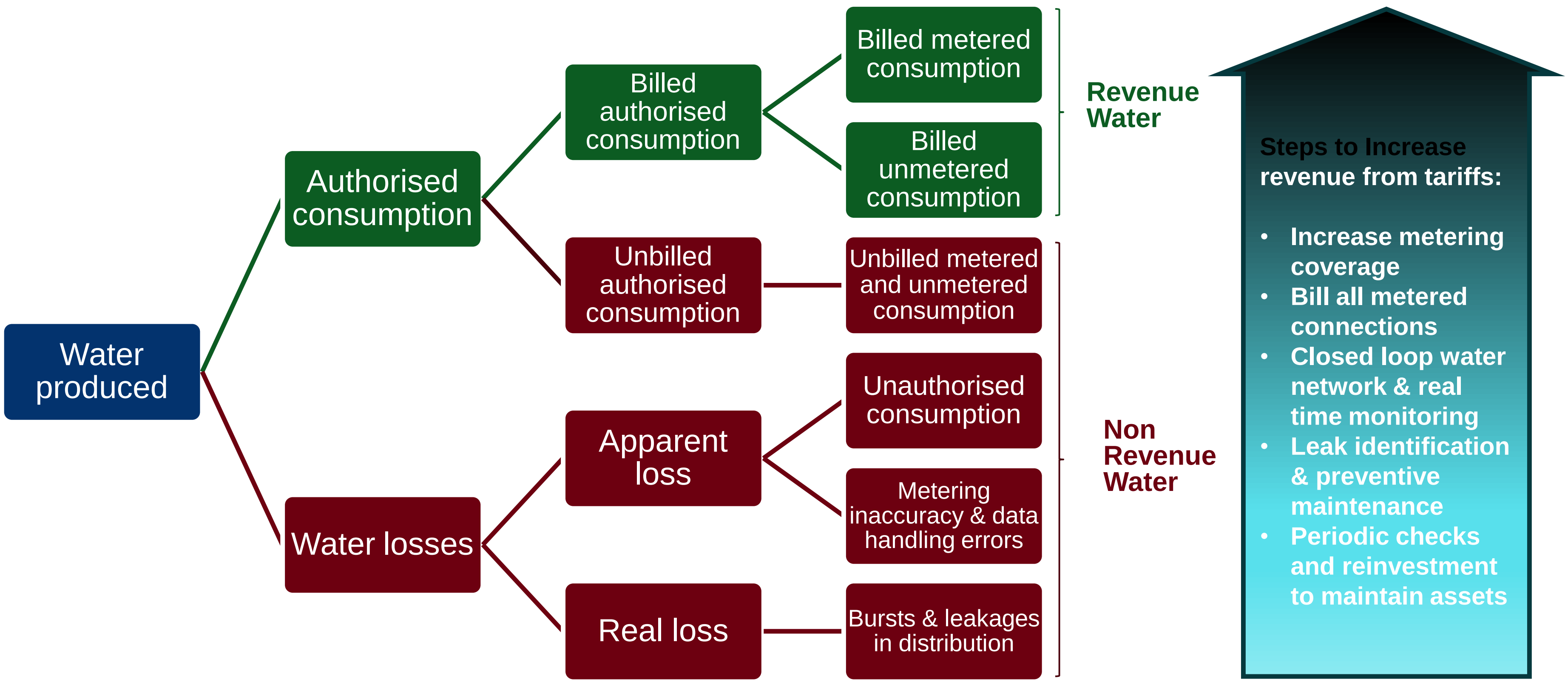
Annual Revenue

- Ad hoc grants
- Predictable Grants
- Income from past investments
- Revenue From water sales connections etc(

Objective: Maximize Regulated Tariff Revenues and Minimize Cost

3. Operational and Financial Efficiencies
-Maximizing Regulated Tariff Revenues-

1. Efficient water accounting, metering and reducing Non-Revenue-Water (NRW)
2. Increasing the consumer base & reducing non-revenue water losses
3. Regular tariff adjustment within the limits of acceptable performance and financial efficiencies and socio-economic affordability and willingness-to-pay.



With NRW level of 50% tariff need to be twice as much of the cost per produced m3

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3. Operational and Financial Efficiencies

-Minimizing Costs-

1. Reduction of NRW
2. Application of energy efficiency improvement intervention
3. Reduction in labor cost
4. Optimization of treatment processes to minimize costs of chemicals
5. Innovation in the rehabilitation and new investment
6. Regular maintenance
7. Minimize the financing costs, but not financing
8. Minimize bad and doubtful debts through increase of billing and collection efficiency.

List of interventions to improve the operational and Financial Efficiencies is long and need to plan for!

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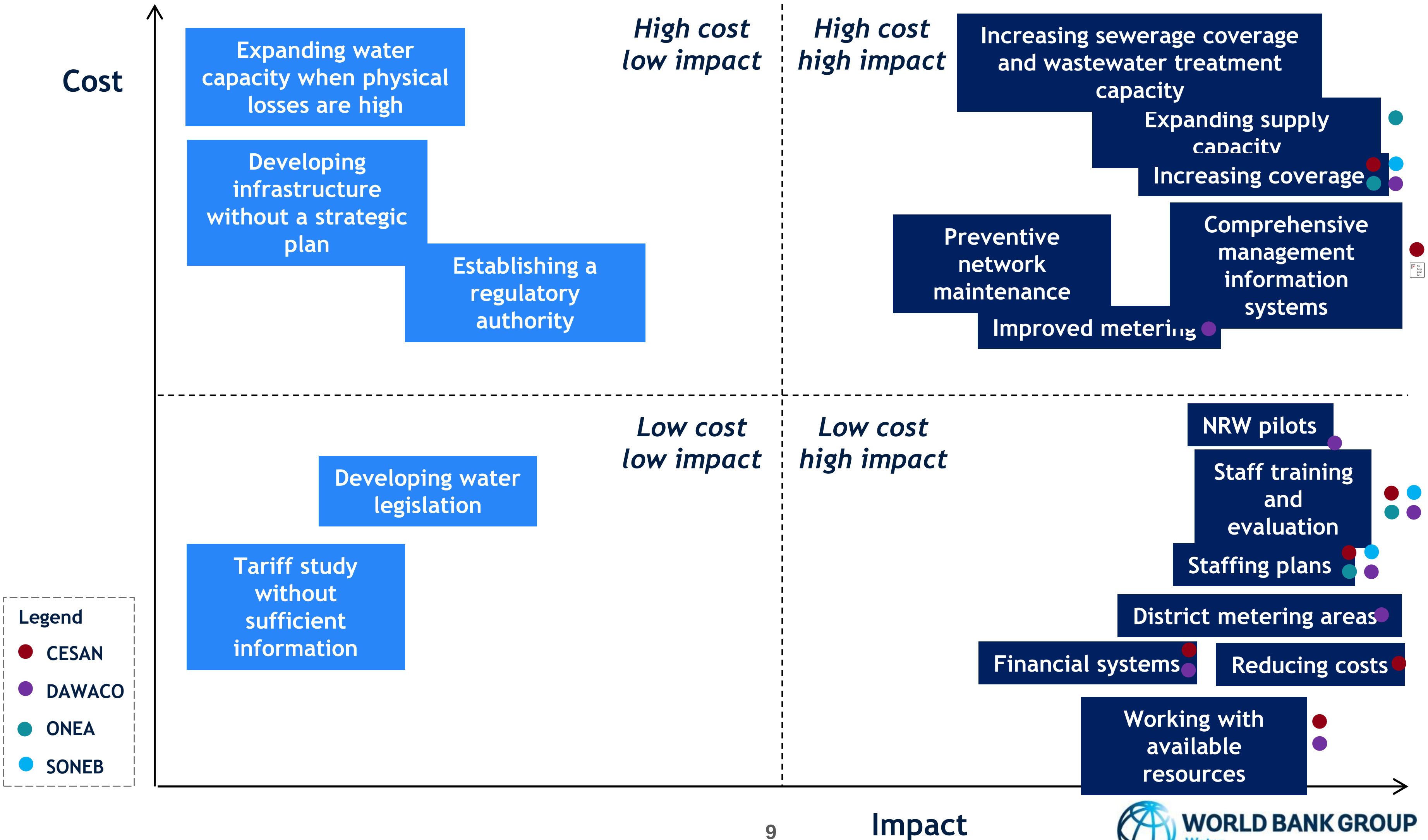
3. Operational and Financial Efficiencies

-Cost vs Impact *(Low Hanging Fruits!)*-



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3. Operational and Financial Efficiencies

-Just a reference map of the Utilities under the study-

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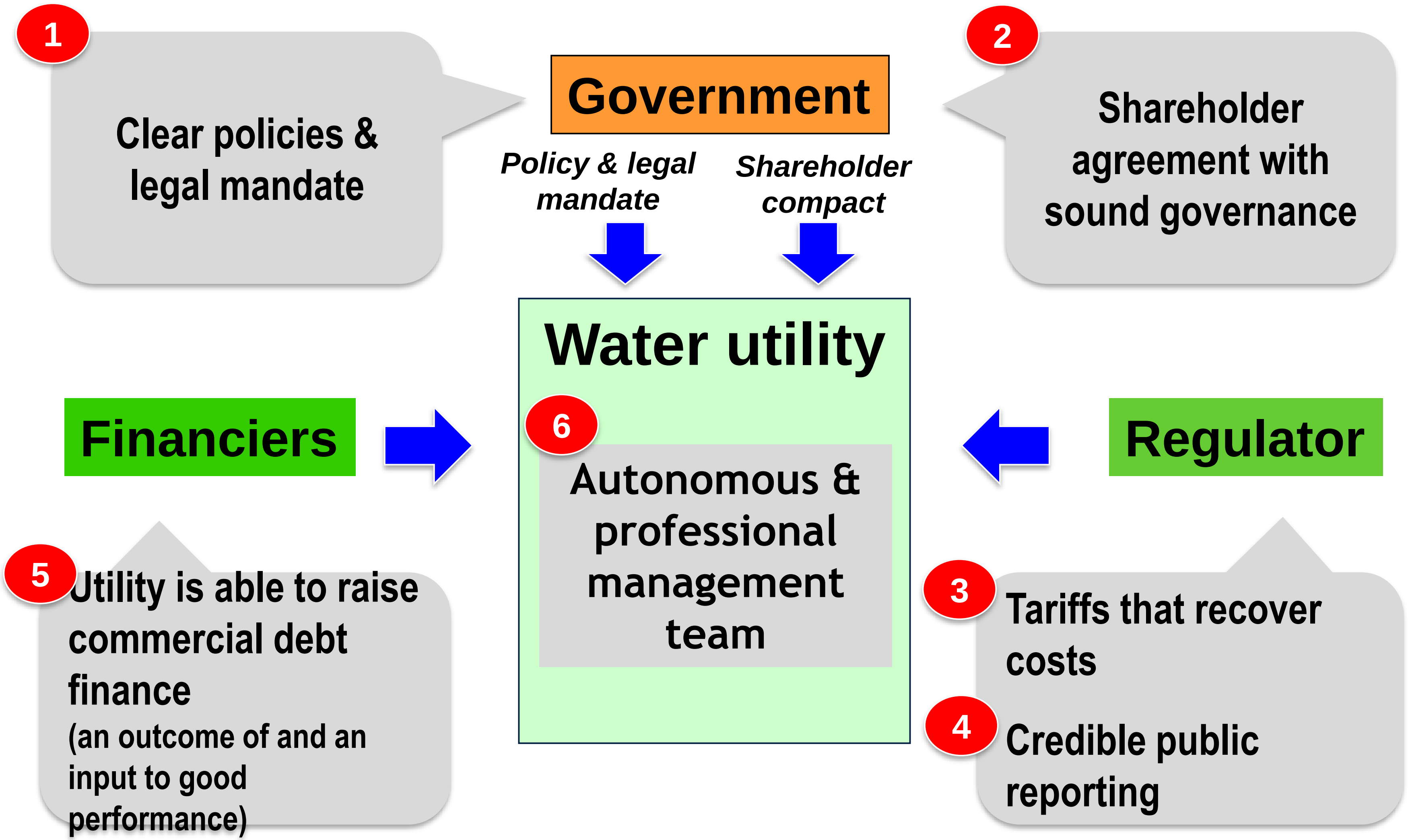
3. Operational and Financial Efficiencies
-Elements to help towards efficient utilities …



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4. Further Financing Challenges
-Commercial Finance-

1. Rehabilitation and Investment needs are to be repaid in the long term and hence can not be recovered in a short-term from tariff only, although they will be eventually paid from tariff and other funds.

2. Lack of timely Finance will limit the growth capacity of the utility

3. Hence, need to access Commercial Finance.

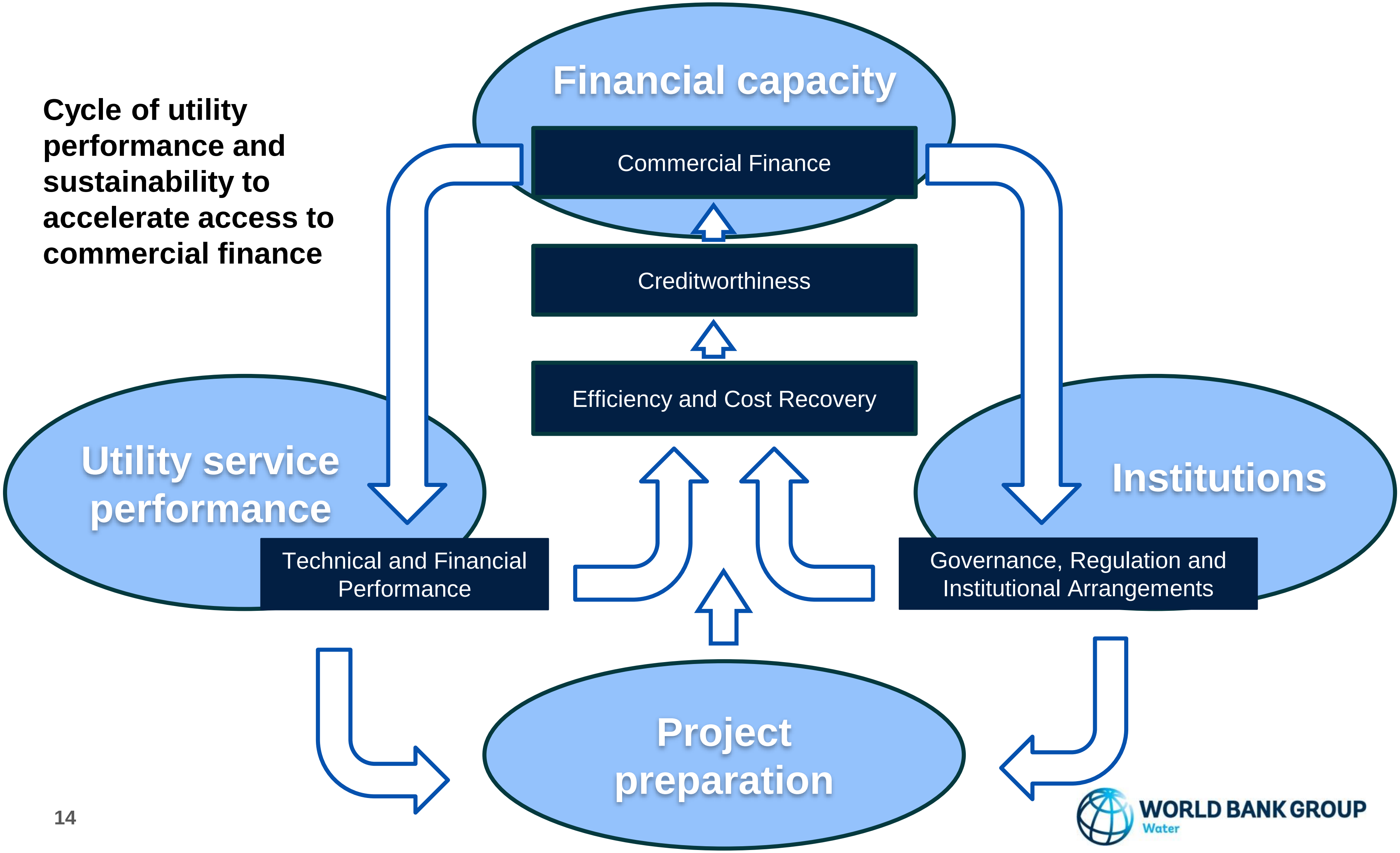
Capacity to access commercial finance is a healthy sign of the utility growth and efficiency

4. Further Financing Challenges
-Benefits from Accessing Commercial Finance-

1. Supports universal access
2. Improves financial and operation efficiencies through asset rehabilitation, replacement and renewal
3. Reduces public debt burden and FX exposure
4. Further increases efficiency of service providers
5. Offers greater chance for the utility to achieve sustainability
6. Credit-worthy providers benefit from enhanced transparency and regulation
7. Allows reallocating taxes / transfers and concessional finance to other sectors in need of public funding
8. Water providers may pay corporate taxes and dividends

5. Commercial Finance and Enabling Environment

Cycle of utility performance and sustainability to accelerate access to commercial finance



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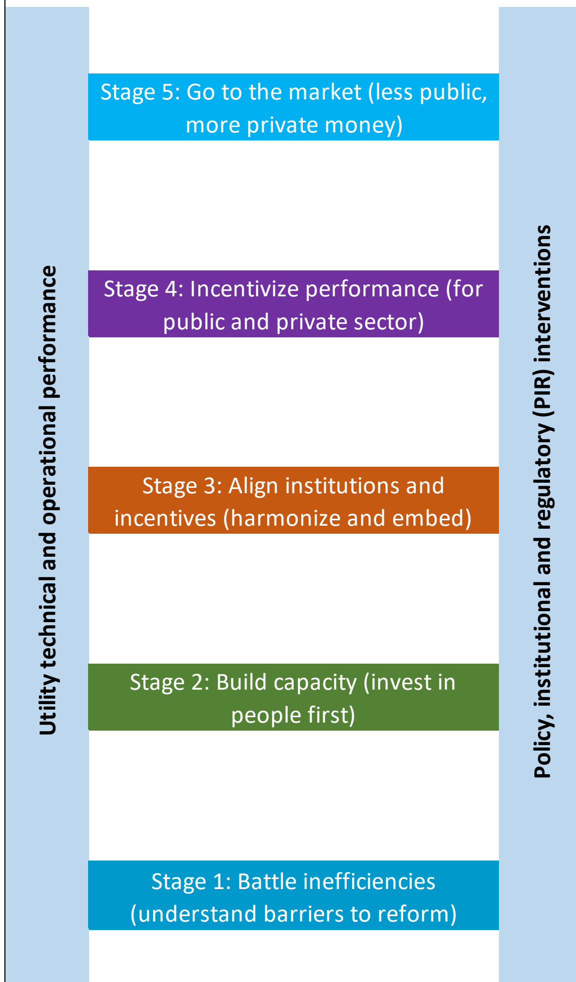
6. Utility Credibility and Ladder of Maturity

Maturity Ladder for the Urban Water Sector



Illustrative actions for moving up the ladder:

Introduce blended finance options
Consider more sophisticated delivery models (corporatization, PPP)
Develop shadow credit rating system
Achieve sector financial sustainability
Monitor and benchmark performance
Conduct strategic action planning
Engage the private sector as a potential technical or financial partner
Redirect subsidies to reach the poor
Use performance-based contracts
Adjust tariffs
Leverage results-based financing
Embed policies in the legal framework
Abandon perverse subsidies
Engage customers early and often
Ring-fence utilities
Back sector goals with consistent and transparenet subsidies
Clarify policy direction and targets
Achieve financial viability (OCCR>1.2)
Reduce NRW
Create an information base
Build regulatory enforcement capacity
Fully resource sector institutions
Hire based on merit and skill
Identify strong sector leaders and champions
Improve metering
Cut energy and labor costs
Increase billing and collections
Conduct a political economy analysis

The ladder is nice tool for utilities to assess where they stand and to identify needs to access commercial finance

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Thank You

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