Financing water infrastructure
Generic SIWI-approach applied in Lower Jordan River Valley
Some challenges to the Master Plan

- Political instability
- Financing scale
- Multi-national investment climate

= high risk
How to tackle the challenges?

• Mitigate political tension

• Look to commercial investor decision-making criteria, thereby unlocking vast credit markets

• Create interdependencies between investments and stakeholders
G7 10-year bonds 1956-2016
(OECD, Aug 2016)

=Institutional capital at risk of not meeting expected rates of return
Infrastructure investment shortfall

Estimated infrastructure investment need globally \((McKinsey, WEF, Arcadis)\)

Infrastructure financing shortfall in Africa alone...

Official Donor Agencies + Regional Development Bank
GLOBAL spending on infrastructure \((OECD-DAC, 2014)\)

Private sources account for 80-90% of investments globally
\((PwC, 2015)\)
A balancing act for financing...

Government bond yields are at an all-time low.

Donors are facing cut-backs

Infrastructure investment demand booming

Lack of infrastructure restraining economic growth

Governments unable to finance infrastructure

Institutional capital need higher yields than 0-2%

Infrastructure becoming an accepted asset class

The potential for institutional capital funding growth has never been this advantageous.
Investment vehicle

Ownership:
• Joint Infrastructure Investment commission

Responsibilities:
• Financing
• Construction
• Management of assets
• Tariff setting/collection

Delivery mechanisms:
• Build-Operate-Transfer
• PPP-financing
• Domestic loans
• Commercial financing
• Blended ODA/RDB financing
The **Joint Infrastructure Investment Commission** owns the fund and part of the returns produced in the fund.

The fund owns and operates the investments, independently of the **Joint Infrastructure Investment Commission**.

The clustering of different investment purposes allows for a variety of stakeholders to invest or support.
Why use this method?

- Indirect ownership of assets: Reduced vulnerability to domestic and regional instability
- Professional management: Operations often more critical to success of venture than construction phase
- Indirect financing: True stakeholders (states) task of funding removed
- Commercial loans: More transferable than development banks’ or ODA investment funds
- Asset-backed financing: Collateral ensure lower credit costs, Secondary market/ exits made possible
The role of development banks and ODA’s

Investments can be made more attractive by adding non-commercial components to the financing pool.

- Blending loans
- First-loss guarantees
- Low-cost financing
- Capacity building
- Volume guarantees
So what would be interesting about this?

The perspective is for a professional management of an economic growth mechanism

**Bringing in commercial finance will signal two things:**
1) This is a market-viable investment vehicle
2) Institutional capital can be unlocked to mutual benefits (yields vs. financing)

**The perspective of the BASIN as an economic unit gives:**
I.) Proximity to the markets is economically efficient
II.) Interlocked risks and benefits creating stakeholder interdependence

**The model allows for**
A) Parts or the entirety to be realised, depending on market-viability for different investment types
B) A multitude of actors with different stakes to participate
C) A variety of delivery mechanisms
D) Governance as the overriding focus for the investments and institutions-building
Thank you!

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