

Development Credit Authority (DCA)

Private Sector Finance for Water



Secretary of State Colin Powell and USAID Administrator Andrew Natsios visit a USAID-supported medium-scale enterprise development program in South Africa to observe the potential benefits provided by DCA financing.



Fulfillment of people's water-related needs through infrastructure investment is important in the elimination of poverty.



USAID helps link creditworthy projects and risk sharing partners to provide affordable and sustainable water services to urban slums.

USAID's Development Credit Authority (DCA) is a proven and effective tool that permits USAID to issue partial loan guarantees to private lenders to achieve economic development objectives. DCA partial guarantees help mobilize local capital and put it to work in creditworthy but underserved markets. The DCA credit enhancement has facilitated financing in many sectors, including water and sanitation.

Enhancing Access to Clean Water and Sanitation Through Innovative Financing

USAID is currently examining the world market for private debt financing and is working closely with overseas missions in an effort to identify bankable projects and risk-sharing partners in the water sector. This effort is designed to identify both partners and opportunities for risk sharing arrangements in private sector-led finance, ranging from large-scale water initiatives in the formal sector to small-scale projects such as farmer cooperative well programs in the informal sector. Results of this fact-finding effort will be made available to the other agencies of the U.S. Government who are engaged in working together with the private sector to implement the objectives set out in the Johannesburg Plan of Implementation of the World Summit on Sustainable Development.

Applications of DCA to the Water Sector

South Africa

USAID/South Africa proposes to fulfill the objectives of the Johannesburg Plan of Implementation by investing in a water and sanitation initiative targeted at urban areas, in recognition of current economic and demographic trends. The objective of the initiative is to increase the quality and quantity of these services, particularly for the poor, by increasing the investment in and improving the management of water and sanitation services in urban areas. This initiative will:

- Make use of technical expertise established already in South Africa in the Municipal Infrastructure Investment Unit (MIIU);
- Employ clear and independently monitored performance standards; and
- Take advantage of credit enhancement where needed through the USAID DCA program.





Community residents in India show their water bill for the new private water hook-up they have in their home as a result of DCA financing through a USAID-supported water supply project.



DCA partial guarantees help mobilize local capital to encourage private investment in infrastructure-supporting water delivery services.



DCA is a proven and effective tool to mobilize local capital and put it to work in creditworthy but underserved markets.

Through this three-pronged approach, municipal management improvements will be matched with capital investment, resulting in expanded quality and quantity of water and sanitation services to the urban poor. This proposal builds on successful financing of earlier water projects, such as municipal loans to the Greater Johannesburg Metropolitan Council, which the DCA helped place with ABSA Bank.

Egypt

The Ministry of Housing and the South Sinai governorate agreed to outsource the operations and maintenance for the entire water system for South Sinai — plants, pumping stations, and networks in the nine cities of Ras Sidr: Abu, Redeis, St. Catherine, Abu Zinaima, Tur Sinai, Sharm El Sheikh, Dahab, Nuweiba, and Taba. The contractor supplies labor, equipment, and tools for all parts of the system that are not under an existing service contract.

Currently, private sector participation in the infrastructure sector is limited in Egypt. Under this new arrangement, the governorate focuses on contract management and collections, and holds the contractor accountable for performance. In a radical departure from prior service contracts, this arrangement established a performance-based contract, with the contractor's compensation based on meeting certain standards.

DCA's support will facilitate greater private sector participation in the water and wastewater sector by introducing the utilities and local financial markets to the concept of private finance and operation in infrastructure. It will also encourage the extension of local currency loans of suitable maturities for infrastructure projects. Finally, it will demonstrate the viability of the private sector to provide higher quality, lower cost services to the water and wastewater sector.

As services improve, this arrangement will hopefully provide a good example of benefits realized from outsourcing public services, increasing confidence in the viability of private sector participation to provide effective utility services on an affordable basis.

With the DCA guarantee, local commercial banks will provide up to 40 million dollars in loans to improve and expand water and wastewater services. Experts estimate that over the next ten years Egypt will need 8 billion dollars to maintain facilities and meet demand. The use of DCA facilitates the entry of local financial institutions in this under-served market.

India

With a DCA guarantee, USAID supported the second pooled municipal bond issuance to improve and expand provision of water and sewerage services in the Bangalore Metropolitan Area. Eight municipalities are participating in the 21.7 million dollar bond. The bond will be issued by a public trust established solely for the purpose of assisting these municipalities to gain access to the local capital market. The DCA guarantee stimulates investor interest in municipal bonds, builds technical experience and knowledge in municipal financing, and creates the potential for the development of a secondary market.