How to close the water supply-demand gap?

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Our business is developing.

DEG
KFW BANKENGRUPPE

DEG: *Private sector investor/lender in developing and emerging markets*

Corporate data

Founded:	1962
Employees:	418
DEG Head office:	Cologne
Shareholder:	KfW, Frankfurt
Equity capital 2009:	EUR 1.3 billion
Balance sheet total 2009:	EUR 3.7 billion
New business 2009:	EUR 1.0 billion
Portfolio 2009:	EUR 4.7 billion

Product range and areas of investment

Products (corporate and project finance):

Equity Capital	**Long-term loans**
Mezzanine finance	**Guarantees**

Areas of investment:

- Greenfield projects (with strong sponsor)
- Expansions (acquisition additional concessions)
- Privatizations and Buy-outs

Regions:

Asia, Africa, Latin America, Eastern Europe and ME

Commitments in the water sector to date are *exceeding US$ 100mio*

BAUER

Oman
Waste Water Treatment Plant
US$ 28 million senior loan
(2009)

Chennai Water

India
Sea Water Desalination
EUR 14 million senior loan
(2008)

China Water

China
Water supply
US$ 18 million senior loan
(2007)

Apa Nova

Romania
Water supply
EUR 18.5 million senior loan
(2002)

Manila Water

Philippines
Water Supply
US$ 20 million senior loan
(2002)

Limited engagement of the private sector – evidence –

Investment needs

- MDG No. 7: Halve the proportion of the population without sustainable access to safe drinking water and basic sanitation by 2015

- Required investment for Africa is ca $22 billion p.a. or roughly 3.3 % of its GDP. *(Africa's Infrastructure, a time for transformation, Foster, Briceño-Garmendia, 2010).*

Private sector participation required to fund new investments

Percentage debt funding of (waste) water capital investments

Emerging and Developing markets	Developed markets
Africa (< 20%)	Europe (< 60%)
Latin America (< 40%)	Japan, NZ, AU (< 60%)
South Asia (< 10%)/ East Asia (< 30%)	North America (< 50%)

Limited engagement of the private sector – barriers –

Water tariffs alone do not fully cover investment and maintenance costs:

- cover in Western Europe up to 35-70 % and emerging markets up to15 %
- only 9 % of 45 surveyed African utilities meet O&M and part of their capital costs *„Cost recovery, equity and efficiency in water tariffs; evidence from African utillities“, Banerjee, Foster, Ying, Skilling, Wodon, 2009)*
- Limited room to raise tariffs due to political and social reasons

Strong dependence on state support and/or international aid to fund the gap

Lack of environment that attracts foreign investment in this sector

- Lack of stable legal, fiscal and regulatory framework and experience
- Lack of reliable, long term financial support for the project
- Government ownership and operation of assets

Addressing the issue: *Main criteria for private sector investments*

Adequate return to pay for investment and maintenance (equity and debt)

- Sustainable subsidisation program for cost of water supply
- Risks covered with e.g. state guarantee, recourse financing

Dependable regulatory and legal environment

- Certainty of future tariff income and costs (taxes), enforceability of contractual arrangements (pri insurance)
- Balanced concession agreements

Experienced private sector project sponsor

- Privatisation of assets

Get in touch!

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