

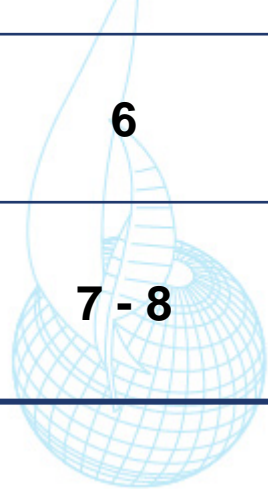
Mobilising Private Sector Financing

for Asian Water Projects

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BNP Paribas in the Asian Water Sector

2004 SINGAPORE



NEWATER PLANT

SGD 120,000,000

136,000m³/day NEWater Plant at Ulu Pandan, Singapore

Financial Advisor

2003 ABU DHABI



TAWEELAH

DHS 1,000,000,000

Development of seawater desalination Plant at Taweelah, Abu Dhabi

Financial Advisor

2002/3 SINGAPORE



SINGSPPING

SGD 200,000,000

Development of desalination plant in Tuas, Singapore

Financial Advisor

2000 CHINA



BEIJING WATER

USD 50,000,000

Construction and operation of Water Treatment Plant

Financial Advisor

1997 INDIA


**JOHAN HOLDING
GEORGE KENG
HO HUP
ANGLIAN WATER**

GOA WATER

Expansion of the Salaulim 165,000MLD water supply project

Financial Advisor

1995 PHILIPPINES



CEBU WATER

USD 122,000,000

120,000³/day dam and bulk water Project in Cebu, Philippines

Financial Advisor

1999 PHILIPPINES



MAYNILAD

USD 100,000,000

Distribution and supply of water in West Zone, Manila, Philippines

Lead Arranger

1998 CHINA



CHENGDU WATER

USD 130,000,000

Construction and operation of water treatment plant in China

Financial Advisor

BNP Paribas is one of the original lenders to Maynilad, which won the West Zone Concession in 1997. A \$100 million Bridge Loan was extended by 7 banks under corporate guarantees, while the banks structured a \$350 million facility together with ADB, EIB and COFACE. Maynilad entered corporate rehabilitation in October 2001 and the debt has now been restructured and approved by the courts.

The intention now is that the government will re-bid the majority of Maynilad's shares to the private sector.

The Nature of Water from a Private Sector Perspective

- Private investors often bring private sector financing to projects.
- The encouragement of the private sector in large scale water projects may help to reduce the burden on public sector financing and introduce competitive operational efficiencies in the water sector.
- Unlike the extractive industries, where the private sector is prepared to take market risk, water is monopolistic in character.
- Tariffs must reflect it as a scarce commodity and provide a return to the private investor.
- BUT water is a basic necessity, even for those that cannot pay, and therefore it has social and political implications.
- Even in countries where there is:
 - An established history of paying for water
 - Physical metering of water usage, and
 - Current pricing that is within affordability norms,

.....The private sector is exposed to significant political, legal and social risks, as well as complex or inadequate water regulatory frameworks.
- Therefore in order to mobilise private sector financing to expand water investment, multilateral support through credit enhancement and technical assistance, is required.



The BOT Model versus the Concession Model

Traditional project financing of water projects has been through the Build Operate Transfer (BOT) Model or the Concession Model

BOT Model

- The investor constructs and operates a single asset
- A long term take-or-pay contract with a public offtaker mitigates demand risk and tariff risk
- Completed: Chengdu (China), NEWater (Singapore)
- Shelved: Thu Duc (Vietnam), Beijing No 10 (China)

Concession Model

- The service chain from investment to treatment to distribution, and sometimes to billing, is contracted to the private sector
- Incentives for improving services and penalties for missing targets
- Managed through a 25 to 30 year+ concession agreement with built-in flexibility to allow management of the capex programme, foreign exchange and matching of actual cashflow generation and debt servicing.
- Successful: Macau (China)
- Shelved: Maynilad (Philippines), Buenos Aires (Argentina)

The low success rate of large scale private sector investment in the Asian Water sector is attributed to a combination of factors related to country related risks and foreign exchange risks.

A Risk Analysis of Water Projects in Asia

- **Regulatory Framework Risk**
- **Political Risk**
 - Currency devaluation
 - Transferability and convertibility
 - Social unrest, acts of war
 - Contract frustration risk
 - Tariff intervention risk
- **Foreign Exchange Risk**
- **Borrower Risk**
- **Tariff Formula Risk**
- **Contract Risk**
- **Force Majeure (FM) Risk**
- **Termination and Compensation Risk**
 - The social impact of the water business makes exercising security largely impractical.
 - Finding a Qualified Replacement Operator is not always possible in a protracted default situation.
 - Compensation in the event of termination often requires a lengthy and expensive arbitration process.

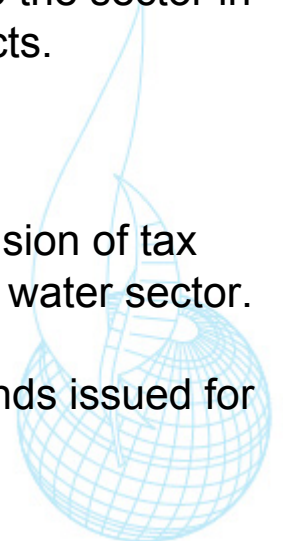


Mobilising Private Sector Financing in the Water Sector

Multilaterals could explore new ways of applying public sector objectives and financing capacity to support private sector finance.

Long Term Governance

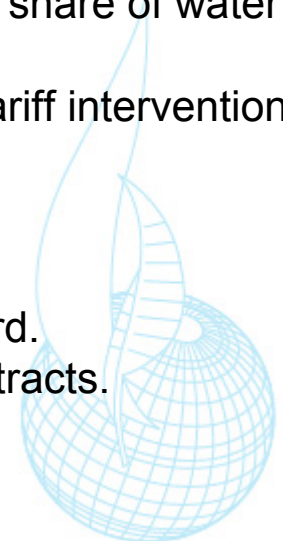
- Expand Scope of Technical Assistance
 - Assist in building a simple national water framework with appropriate regulatory functions and ensure and monitor its implementation.
 - Obtain firm commitment from the host government to the sector in return for an allocation of credit enhancement products.
- Development of Local Capital Markets
 - Promote local currency capital markets through provision of tax exempt status on private sector bonds issued for the water sector.
 - Offer guaranteed FX protection on local currency bonds issued for financing the water sector.



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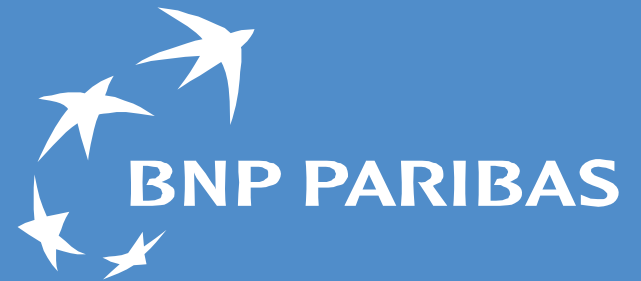
Project Specific Support

- Devaluation Liquidity Backstop Facility/FX Swaps
 - Provide long term hard currency swaps to hedge against devaluation.
 - Pay excess principal and interest out of facility with backstop from host government.
- Create a Water Reserve Fund
 - Would support a pool of privately financed water assets to pay principal and interest in the event of non-payment by any of those projects.
 - Could be backstopped by the host government for its share of water projects within the pool.
 - Would provide flexibility for governments for limited tariff intervention, eg. in rapid devaluation events.
- Political Risk Insurance
 - Cover for contract frustration, without arbitration award.
 - Useful for local authority and municipality offtake contracts.
 - May not be practical for concession agreements.





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