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**Access to financing for
municipal water utilities:
the creditworthiness challenge**

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Creditworthiness: what does that mean?

- Capacity of the borrower to **repay its debt**
- From the **point of view of the creditor**: to be **“worthy of credit”**
- Creditworthiness is based on a **“judgment”** of the borrower by the creditor
 - ⇒ **risk-assessment methodology**, involving multiple parameters

Creditworthiness of a municipality: the various elements

- Macroeconomic situation
- Decentralization framework
- Socioeconomic indicators of the city
- Political indicators
- Management
- Service delivery indicators
- 7) Financial indicators

First constraint: overall situation of the country

- Macroeconomic and political stability
 - Creditworthiness of a local government is lower than that of the central government
- Notion of “**sovereign ceiling**”: a serious constraint for municipalities in developing countries

Sovereign credit ratings

Bulgaria	BBB -
Estonia	A
Poland	BBB +
Romania	BB +
Serbia	B +

2) Decentralization framework

- Clear distinction of **responsibilities** between local and central governments
- Fiscal and tariff **autonomy** (setting tax rates and water tariffs)
- Budgetary **transfers**: predictable & objective formula

3) Socio-economic indicators of the city

- Unemployment / national average
- GDP per head / national average
- Diversification of local economy
- Adequacy of current infrastructures
- Demographic trends

4) “Political” indicators

- Track record and reputation...
- Who approve/ratify new debt?
→ political commitment to repay
- Participatory governance
- Relationship with employees
- Water utility autonomy
- Environmental risks

5) Utility Management

- Professionalism of staff/management
- Financial management:
 - Reporting & planning
 - External auditing
- Commercial management (bills collection)
- Labor productivity & Outsourcing

6) Service delivery indicators

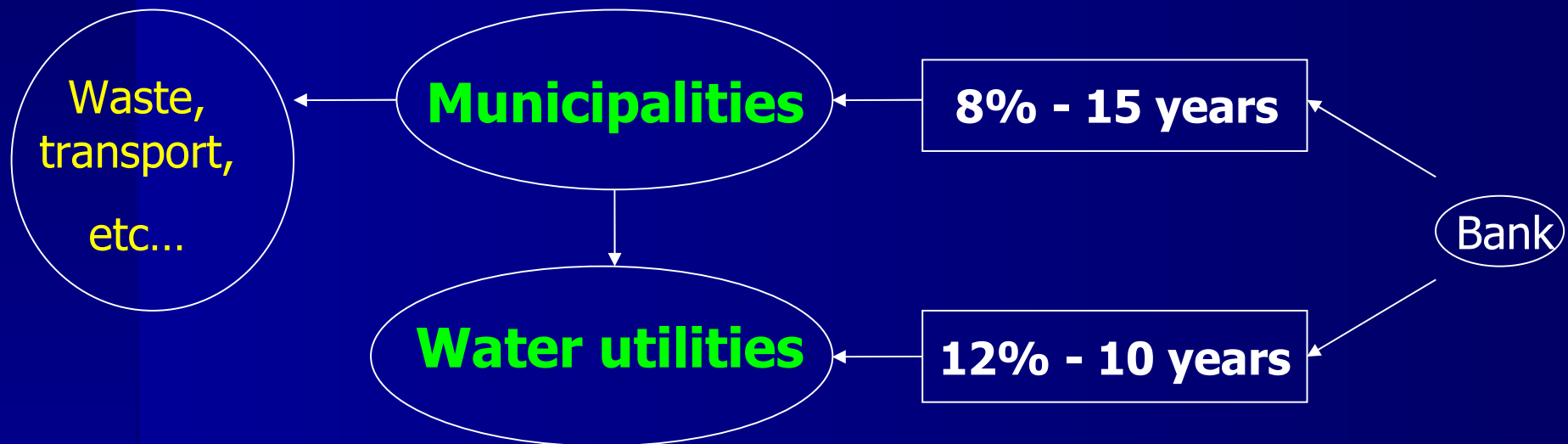
- **Municipal services:** coverage & quality levels, overall satisfaction of customers
- **Water utility:**
 - Quality of water provided
 - Reliability of water supply
 - Access to adequate sanitation

7) Financial indicators

- **Financial ratios:** assessment of capacity to service current debt and repay new debt (debt service, cash flow, interest ratio,...)
- **Water utility:**
 - tariff level and cost-recovery
 - affordability of tariff for customers

Creditworthiness of Municipality vs. water utility

CW municipalities > CW water utilities



A strategic decision !!

Assessing creditworthiness: the methodology

- A complex process: multiple indicators, many somewhat subjective
- Banks can use different parameters but share common framework
- **This workshop:** Illustrating this process to (i) understand the framework, (ii) identify key elements for improvement



THANK YOU!