

Fixing the \$100 billion bit in between



The world of water through the eyes of GWI publisher [Christopher Gasson](#).

Armed with a pitch deck based on water's fundamentals, anyone could raise a \$100 billion investment fund tomorrow. The financial world is beginning to understand what climate change means for water, and with the Magnificent Seven tech stocks (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla) showing divergent performance, there is appetite in the market for a coherent new theme for investors to get behind. Water looks ideal. It has big global megatrends promising accelerated growth; it has a solid record of outperformance; and it also offers a great hedge against the volatility of our increasingly uncertain world.

The problem is that if you are trying to raise \$100 billion, at least one or two of the slides in the deck have to show what you would do with the money. That is where water runs into trouble. There simply aren't the opportunities to deploy \$100 billion in water-related investments and come back with a market-beating return. Most of the water sector is in public ownership. This puts it out of reach of private investors, and it also casts a shadow over the investment opportunities that exist in the water supply chain. Public procurement rules hold back innovation and stifle the development of service offerings.

So, the situation is that there are a lot of good new reasons to want to invest in the water theme, but the same old way the water sector works is likely to frustrate them. The money is there, and the need is there, but somehow the bit in between is not. How do we move forward?

This "bit in between" is essentially a trade-off. How much control are the public and their political representatives prepared to exchange for the investment in water services that they want?

In theory, this should be a question of cheap and bad water services under public control, versus expensive and good water services under regulated private control. In fact, the egregious behaviour of a small number of private water companies (Agua del Tunari in Cochabamba, Bolivia, and Thames Water in the UK, for example), has turned the choice into what looks like a no-brainer: cheap and bad versus expensive and bad. There has been very little political appetite for private investment in water services over the past 20 years.

I wonder how long it can go on like that.

Look at Brazil. It decided several years ago that the only way it would be able to reach universal water and wastewater coverage by 2033 would be to bring in private capital. Since

Source: [Water Intelligence Magazine \(April 2024\)](#).

then, 12 large concessions serving around 24.4 million people have been auctioned off, bringing in around US\$11.2 billion. One state water company has been sold (Corsan – which serves 6 million people), bringing in US\$816 million, and Sabesp, which serves 27 million people in São Paulo state, has been given the go-ahead for a secondary share offering that will help finance its US\$13.5 billion investment programme. Altogether it amounts to the largest private investment opportunity in the international water industry outside the Gulf region in the past five years.

The Gulf water sector itself also represents a recognition of the value of private finance in getting things done quickly and effectively.

Obviously, the public finance model works very well in certain geographies. Northern Europe, the big cities of North America, Singapore, Japan, Australia, and Korea all have public water systems which deliver expensive and good water services. The problem is in the other three quarters of the world, where cheap and bad is becoming an ever-greater burden on the population and the economy.

At our conference last month, I proposed the idea that specialist water investors should come together to make the case for the establishment of water as an asset class. I see an opportunity to convince the world's major asset allocators (i.e. sovereign wealth funds, pension funds, and other major sources of capital) that a balanced portfolio should have a water strategy. This strategy should be about investing to reduce the burden of inadequate water management on the planet, lest that burden affect the value of other investments. How big does water's burden have to be before the money and the need meet?

Source: Water Intelligence Magazine (April 2024).

