



Towards an executive summary: draft key messages

4th Meeting of the OECD Water Task Team

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Raising to the challenge of sustainable financing for the water MDGs

- Financing the water-related MDGs is a key global challenge: MDGs global commitment, water linked to other MDGs, costly to achieve (O&M more than investment), benefits often unrecognised, large financing gap
- Finance necessary but not sufficient condition to achieve MDGs: governance reforms often pre-condition
- Service delivery takes place at local level, but driven by the “financing framework” defined by national policies
- Need for financial realism: mobilisation of basic revenue sources (taxes, tariffs, transfers) defines financial sustainability and allows to leverage commercial finance
- Sector very diverse (water/sanitation, urban/rural), fragmented, needs upfront investment to increase service levels and internal revenues, not attractive to commercial finance, role of public lending
- Growing challenge (population growth, urbanisation, maintenance of existing & expanded networks, impact of global financial crisis)

Towards financial sustainability: facing hard policy choices

- Financial needs are not set: a policy variable linked to coverage and service level targets, but also to operational efficiency
- Need to define mix of basic revenue sources (3Ts) and their use:
 - tariffs at the core, but full cost recovery not realistic (possible exceptions: urban water, some HICs)
 - subsidies are here to stay, but need to define role (public goods, serving poor, leverage)
 - how best to use limited ODA to exploit catalytic potential (requires leadership from recipients and donors moving away from flag-planting) mindful of absorptive capacity
- Many difficult trade-offs on expenditure side (urban/rural, water/sanitation, extension/maintenance)

Informing policy choices: the need, role and benefits of strategic financial planning

- Currently, policy decisions are rarely based on comprehensive, long-term sector analysis
- Strategic financial planning can provide a structure (and a decision support tool) to enable evidence-based policy dialogue among relevant stakeholders, including MoF
- The benefits of strategic financial planning are:
 - Shared understanding and consensus on the status of the sector and a realistic way forward
 - Stronger link between sector policies, programmes and projects, ie in support of SWAps
 - Better allocation of scarce public resources
 - Expanded access to public budgets and ODA (credibility of sector plans, explicit link to MTEF)

Making SFP work:

basic principles from lessons learned

- Getting SFP to work and deliver is far from easy, but some principles to achieve productive policy dialogues are already available
- **Actors:** SFP requires strong ownership (champion), engagement of all key stakeholders (at senior level, incl. non-water), supportive donors
- **Process:** realistic ambitions for process (expected outcomes), link to other relevant policy processes, link to governance reforms, iterative, patience, link national/local levels, different levels of engagement of stakeholders
- **Analytical base:** get right level of sophistication of underlying analysis (data, model), hard data brings credibility, use analysis that can bring water and finance stakeholders together
- **Capacity of beneficiary** (to engage in dialogue, to perform policy analysis, to own and operate model): adapt ambition and invest in developing capacity
- **Role of donors:** introduce idea, support capacity development, be ready to align