

## OECD DAC/EPOC Water Task Team

### Chair's Summary of the Fourth Meeting of the Task Team

OECD Conference Centre, Paris (France) – 14-15 October 2008

#### Meeting Outcomes

- **“Financing Strategies report”**. The first draft of the Task Team’s report was well received, a number of constructive substantive comments discussed, and a number of main messages identified. The draft report will be substantially revised by (i) incorporating comments, (ii) bringing up main messages more forcefully, (iii) adding more evidence from case studies, (iv) streamlining main text and (v) overhauling the executive summary. It was agreed that a more appropriate conceptualisation of the approach advocated in the report is “strategic financial planning”, and that there is a need to differentiate “policy messages” from “practical messages” – the latest could be expressed through a “checklist”. Written comments should be provided to the Secretariat by 14<sup>th</sup> November. A revised draft will be circulated electronically for final comments in early February.
- **New experiences**. Work in Egypt (under the leadership of Greece and the MED EUWI, and with support from the OECD secretariat) continues and should be completed by February/March 2009. Work in Lesotho (under the leadership of the EUWI-FWG and with support from the OECD secretariat) has already started. Possible work in Mauritania (again in co-operation with EUWI-FWG) has been postponed due to recent political developments; opportunities for an alternative country are being explored.
- **Dissemination efforts**. A major event for disseminating the findings of the report will be the Fifth World Water Forum in March 2009, where the report will provide the analytical background for a specific session on “strategic financial planning” and for which the Secretariat acts as session convenor. The final report would be officially launched at the possible High Level Meeting of DAC and EPOC on 28-29 May 2009. Task Team members should consider how they can promote dissemination of the Task Team’s work: possible options are (i) a presentation to AMCOW TAC, (ii) the possible meeting in 2009 of African Ministers of Water and Finance. Task Team members indicated that the title of the report should be decided by the Secretariat in consultation with communication experts.
- **Work beyond 2008**. The OECD is currently discussing its biannual Programme of Work and Budget (PWB). Suggestions for further work on water in the PWB 2009-2010 are structured around three main areas (i) implementation of recommendations on water supply and sanitation, (ii) economics of integrated water resources management, and (iii) political economy of reform in the water sector. Task Team members expressed particular support for (i) discussing issues of water resource management, in addition to issues of water supply and sanitation, in the framework of the Task Team, (ii) producing guidance on strategic financial planning in the water sector for inclusion in updated DAC Guidelines, (iii) annual updates of the DAC report on aid for water.
- **The future of the Task Team**. It was agreed that there would be no further meetings of the Task Team in its present form. The Task Team will continue to do business by electronic means to finalise its report on Strategic Financial Planning (formerly “Financing Strategies”). The session in the World Water Forum will provide an occasion for most members to meet again. The Task Team may resume meetings in the second half of 2009, subject to the outcome of the OECD’s Programme of Work and Budget process, possibly with a different focus and more significant participation from developing country representatives.

## **Opening – the Task Team and the OECD**

Maurice Bernard (Chair) opened the meeting welcoming participants. He highlighted the importance of this meeting and expressed satisfaction for the participation of new members.

The Chair reminded participants of the origin of the Task Team as well as its working methods (expert-level contributions and discussions, voluntary participation, reporting to official OECD bodies: DAC/ENVIRONET and EPOC/WPGSP).

The Chair introduced the agenda for the meeting and informed Task Team members that the main objective of the meeting was to discuss the first draft of the report of the Task Team on “Financing Strategies for Water Supply and Sanitation”.

Peter Borkey (OECD Environment Directorate) reminded participants that the Water Task Team is one of three Task Teams created after the 2006 Meeting of OECD Environment and Development Ministers (the others two dealing with Climate Change Adaptation and with Governance and Capacity Development for Environment). He also reminded participants that the work of the Task Team constitutes Pillar 2 of the OECD’s Horizontal Water Programme (the other two pillars dealing primarily with Water Pricing and with Private Sector Participation).

Valerie Gaveau (OECD Development Co-operation Directorate) presented a report on ODA flows to the water sector, prepared in the framework of the OECD DAC Working Party on Statistics and in collaboration with the World Water Council. DAC member’s bilateral aid for water has been rising in the 2000s, reaching USD 5 billion in 2005-6, or 9% of total sector-allocable aid. The report provides further information on aid modalities, main donors and allocation of aid to recipients. Ms. Gaveau informed participants that the DAC Working Party on Statistics is considering improving information on aid for water flows, by separating statistics on water from those on sanitation and by looking into methodological issues related to water allocations in budget support. Meeting participants welcomed the report and requested the OECD to explore the possibility of providing annual updates of this report.

## **Progress with new experiences under the Task Team’s aegis**

Roberto Martín-Hurtado (OECD Environment Directorate) informed participants on progress in supporting the development of a financing strategy in Egypt. This exercise is led by the Mediterranean component of the EU Water Initiative, with Greece as lead country and GWP-Med as secretariat, and the main counterpart is the Egyptian Holding Company for Water and Wastewater. The exercise is structured around a number of Water Dialogue Events involving a large number of stakeholders. The analytical work includes an Affordability Assessment (first draft discussed in a Water Dialogue Event in July 2008) and a Financing Strategy Report (first draft of baseline report expected from the consultant in late October 2008). A new Water Dialogue Event will take place in December. The current phase of the exercise (focused on Greater Cairo) will be completed by March 2009.

Johan Holmberg (EU Water Initiative – Finance Working Group) informed participants of the efforts to carry out additional financing strategies exercises. Work in Lesotho has started: consultants have been contracted and started data collection in early October 2009. Possible work in Mauritania has been postponed due to recent political developments and will probably be cancelled. Opportunities for an alternative country are being explored.

## **Reviewing the Financing Strategies report**

Jim Winpenny (consultant) introduced the first draft of the Financing Strategies report. He informed participants about the sources consulted (summaries of previous Task Team meetings, case studies provided by Task Team members, brainstorming discussion organised by Secretariat in June, other available sources) and explained that the latest case studies provided by members had not been reflected in the first draft.

Meeting participants welcomed the first draft of the report and provided a number of constructive substantive comments, including:

- expand the treatment of the link to the MDGs (achieving the MDGs, national definitions of MDGs, countries that go beyond MDGs) and include the latest update on MDG published by the Joint Monitoring Programme of the UN
- contextualise and explain recent WHO estimates on the cost of achieving MDGs (which have the potential to be a game-changer) and Transparency International estimates of the cost of corruption
- update ODA figures and provide (in a box) explanations on DAC terminology and methodology
- highlight governance and capacity development issues as critical to the development of the sector and indicate the specific catalytic role for ODA in this
- put more emphasis on the existing financing gap in the water sector
- provide a more comprehensive view of water finance, by including a section on “repayable sources of finance” (concessional loans, commercial finance, equity etc.)
- explain that there is also a ladder of progress for sanitation
- discuss why water supply is neglected by government, including political economy factors
- discuss and highlight the need for linking central and local financial processes
- highlight that the water sector is lagging behind other sectors (such as health and education) in adopting sector-wide approaches
- emphasise that sustainable financing includes efforts to improve operational efficiency (fix leaks, enhance billing and collection) and reduce potential costs (set affordable service-level targets and realistic service coverage schedules) to narrow the financing gap
- provide a more consistent treatment of subsidies (rationale, allocation)
- provide a more nuanced treatment of the 3Ts (tariffs, taxes, transfers)
- use the expression “strategic financial planning” (instead of Financial Strategies) to discuss the approach advocated by the Task Team and described in the report
- make the case for strategic financial planning early in the report
- distinguish lessons for policymakers from lessons for practitioners
- highlight the need to link strategic financial planning (SFP) processes to existing processes
- Stress the importance of involving the Ministry of Finance and the necessity to identify a “Champion”
- do not understate the practical difficulties of engaging in SFP processes
- do not provide fully fledged guidance for SFP processes, but state principles and develop a check list
- Incorporate a section on expected impact of the current economic / financial crisis

## **Towards an executive summary**

Roberto Martín-Hurtado (OECD Environment Directorate) introduced a list of main messages emerging from the draft report and the discussion among Task Team members:

## **1. Rising 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)

## **2. 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)

## **3. Informing policy choices: the value 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)

## **4. 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

Task Team members agreed that those messages would constitute a good basis to develop a new executive summary, and identified (subject to further refinement) the following top messages to be highlighted upfront:

1. While water and sanitation have massive economic and social benefits, severe under-funding is preventing the sector from expanding coverage and leading to deterioration of existing services, with major impacts on the poorest
2. While good governance is a pre-condition to achieve sector performance and the MDGs, increasing revenue from the 3Ts (tariffs, taxes, transfers) is key to financial sustainability and accessing capital and financial markets
3. There is a strong need for greater financial realism of sector plans – to set targets that are affordable (adapting service and coverage levels)
4. By helping to achieve consensus on hard policy choices, strategic financial planning processes (ideally led by Ministries of Finance and engaging relevant stakeholders) lead to more rational use of existing financial resources and facilitate access to additional ones
5. Such processes are in-line with the the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action (AAA) and donors should support them through capacity development and alignment of ODA

## **Dissemination efforts**

Peter Borkey (OECD) reminded Task Team members that a major event for disseminating the findings of the report will be the Fifth World Water Forum in March 2009, where the report will provide the analytical background for a specific session on “strategic financial planning” and for which the Secretariat acts as session convener. The findings of the Task Team’s report will be included in the synthesis report of the OECD’s Horizontal Water Programme, and will be discussed in a dedicated session in the upcoming OECD Global Forum on Sustainable Development (1-2 December). It is expected that the final report of the Task Team will be officially launched at the possible Joint High Level Meeting of DAC and EPOC on 28-29 May 2009. It was agreed that Task Team members will consider how they can promote dissemination of the Task Team’s work: possible options are (i) a presentation to AMCOW TAC, (ii) the possible meeting in 2009 of African Ministers of Water and Finance organised by AfD and UNSGAB.

Alexandra Trzeciak-Duval (OECD Development Co-operation Directorate) informed Task Team members of the updating of the DAC Guidance on Capacity Development for Environment. She suggested using the Task Team’s report as the basis for DAC guidance on strategic financial planning for water supply and sanitation to be included in the Guidance. Task Team members strongly supported this future activity and highlighted its urgency.

Peter Borkey (OECD) presented several options for the title of the Task Team’s report on strategic financial planning. Task Team members indicated that the title of the report should be decided by the Secretariat in consultation with communication experts. One possible title is “Sustainable Financing for Water Supply and Sanitation: A Strategic Approach”.

## **Looking ahead: work beyond 2008 and the future of the Task Team.**

Brendan Gillespie (OECD) informed Task Team members that the OECD is currently discussing its biennial Programme of Work and Budget (PWB). Suggestions for further work on water in the PWB 2009-2010 are structured around three main areas (i) implementation of recommendations on water supply and sanitation, (ii) economics of integrated water resources management, and (iii) political economy of reform in the water sector. He indicated that while the mandate of the Task Team is coming to a close, it would be appropriate to explore opportunities to exploit the “social capital” built over the last 18 months in the Task Team.

Task Team members expressed particular support for producing a DAC guidance document on strategic financial planning in the water sector (even if it is not perceived as a “new activity”), as well for discussing issues of water resource management in the framework of the Task Team. They also encourage the DAC Working Party on Statistics to provide annual updates of the DAC report on aid flows for water.

The Chair expressed to Task Team members his belief that an additional meeting of the Task Team will not be needed, as the final revision of the Task Team’s report on Strategic Financial Planning (formerly “Financing Strategies”) could be done more efficiently by electronic communication. Task Team members agreed.

Peter Borkey (OECD) informed Task Team members of the process for finalising the report. The draft report has been circulated to official OECD delegates of the parent bodies (DAC ENVIRONET and EPOC WPGSP) for their joint meeting on 31<sup>st</sup> October. Written comments by Task Team members and delegates to the above mentioned official bodies can be provided to the Secretariat by 14<sup>th</sup> November. The Secretariat will circulate a revised version of the report by 6<sup>th</sup> February (again to Task Team members and official delegates to parent bodies), with written comments accepted until 27<sup>th</sup> February. A draft final version will be presented at the World Water Forum in March, and a final version published in the course of April.

## **Closing**

The Chair concluded the meeting reminding Task Team members that the dedicated session in the World Water Forum will provide an occasion for most members to meet again.

He indicated that the Task Team may resume meetings in the second half of 2009, subject to the outcome of the OECD’s Programme of Work and Budget process, possibly with a different focus and more significant participation from developing country representatives.

He closed the meeting thanking Task Team members for taking the time to take part in the meeting and for their active participation.