

GUIDANCE FOR PREPARING A CASE STUDY ON FINANCING STRATEGIES (REQUEST FOR CASE STUDY)

WATER SUPPLY AND SANITATION: FINANCIAL EVOLUTION OF THE SECTOR AND THE ROLE OF STRATEGIC FINANCIAL PLANNING

BACKGROUND AND AIM

The case study will be a contribution to the work of the OECD Task Team on Water and Sanitation. Current membership of the Task Team includes some 15 OECD countries and the European Commission, as well as the EU Water Initiative's Finance Working Group, the World Bank's Water and Sanitation Programme and UNSGAB. Membership to the task team is open to any OECD countries as well as to relevant experts. The Task Team is currently chaired by France. The focus of the work of the Task Team (and hence the case studies) is on strategic financial planning (priority-setting, identifying potential for cost reductions, and deciding on the ultimate sources of finance for the sector -- i.e. user charges, tax-payer subsidies, and international solidarity). The focus is **not** on financial mechanisms (e.g. equity investment, risk mitigation measures, bonds raised in local capital markets) that help to mobilise finance.

The aim of the collection of case studies is to learn lessons from strategic financial planning processes aimed at putting the water supply and sanitation sector on a financially sustainable footing (sometimes known as "financing strategies"). The collection of case studies will be the main input for the preparation of the OECD Water Task Team's "Financing Strategies Report", which will constitute the main output of the Task Team.

Case studies may refer to domestic experiences of OECD countries (e.g. strategic financial planning at the river basin level in France) or to experiences in the context of development co-operation (e.g. strategic financial planning in Ethiopia that the UK has supported). In some countries, the most relevant experiences with strategic financial planning may have taken place at sub-national level (state, region, river basin) and therefore a case study could focus on that experience.

The OECD Secretariat has produced a "guideline" to help Task Team members to structure their case study. The guideline covers the issues that will be discussed in the "Financing Strategies Report". The Secretariat does not expect that all issues suggested in the guideline will be addressed in each individual case study. Moreover, some issues suggested in the attached template may not be relevant for all country experiences.

LINKAGES WITH OTHER OECD WORK ON WATER

The OECD is currently implementing a two-year horizontal project on Sustainable Financing to Ensure Affordable Access to Water and Sanitation. (In the OECD context, "horizontal" means that several OECD committees and directorates are involved in the work.). The horizontal water project is structured around three pillars. The work on strategic financial planning of the water and sanitation sector undertaken by the OECD Water Task Team corresponds with "Pillar 2" of the project. "Pillar 1" focuses on water pricing, innovative business models and financing mechanisms. "Pillar 3" focuses on private sector participation in developing countries.

As part of “Pillar 1”, the OECD secretariat will carry out a survey on water pricing in all 30 OECD countries and in a number of non-OECD countries. As part of this work, a Water and Sanitation Pricing Survey will be circulated in January 2008 to all OECD member countries so that preliminary data can be validated and missing data can be collected. The limited number of OECD country case studies under “Pillar 2” will help to provide context to the detailed water pricing information coming from the Water and Sanitation Pricing Survey. At the same time, information produced through the Survey could eventually be included in the corresponding OECD country case studies. The water and sanitation institutional and policy framework of selected OECD and non-OECD countries will also be reviewed as part of the work on private sector participation under Pillar 3. These efforts should therefore be seen as complementary and carried out accordingly. All the analysis generated under the three pillars will be eventually brought together in a synthesis report.

LENGTH

The case study should not exceed 10 pages.

DELIVERY SCHEDULE

You are kindly requested to submit a first draft of the case study by 28th February 2008. The Secretariat will send you comments on your draft case study by 13th March.

You will be requested to send a revised version of the case study by 27th March. This version will be distributed to all Task Team members. It is expected that most case studies will be presented during the Third Meeting of the Task Team, to be held on 10-11 April in Paris (tbc).

A final version of the case study will be expected by 31st May, as to allow its integration in the “Financing Strategies Report”.

GUIDELINE ON ISSUES THAT COULD BE COVERED IN IN THE CASE STUDY

PART I: SECTOR BACKGROUND [1-2 pages]

This part could discuss:

- What is the basic socio-economic context of the country? (i.e. demography, GDP per capita,...)
- Please characterise water use in the country: (i) total per capita abstractions, (ii) total abstraction by sector (agriculture, public supply, power, industry, other), (iii) per capita household consumption.
- What has been the evolution of water and sanitation services (connections, service levels, state of infrastructure,...)?
- How has the institutional set up (role of central agencies, creation of a water regulator, role of municipalities, infrastructure ownership, utility ownership, private sector participation, small-scale providers...) evolved over time?
- How has the policy and regulatory context (water law, water policy, enforcement of policy decisions and regulations,...) evolved over time?

- How have sector objectives (number of connections, service levels, for rural/periurban/urban areas, for water/sanitation,...) evolved over time?

PART II: SECTOR FINANCING [4-5 pages]

Section II.A. Basic financial description of the sector

This section could discuss:

- What is the level and structure of expenditures in the sector?
 - drinking water versus sanitation
 - urban versus rural (if available, please also distinguish between urban and peri-urban, and between main cities, e.g. the capital, and secondary towns)
 - function (sector management¹, capital expenditures, O&M expenditures, soft measures – education,...)
- What is the level and structure of revenues in the sector (i.e. revenues from user charges, taxpayer subsidies, and international solidarity)?
- What is the level of expenditures managed by the different parts of the water governance system (ministry of water/central water agency, water regulator, regional/local governments, water utilities...)?

Section II.B. Water tariffs and household affordability

This section could discuss:

- How has cost recovery evolved in the sector (for urban/rural, water/sanitation)? (Again, if further detail is available regarding urban vs. peri-urban and main vs. secondary urban centres, please provide it)
- How has the level of tariffs evolved over time (both for water and sanitation)?
- How has the structure of tariffs evolved over time (both for water and sanitation)? (If possible, include consideration of all components of the water bill, including taxes and levies and any fixed charges)
- How have billing and collection rates evolved over time?
- How have affordability considerations been dealt with in tariff-setting or alternative mechanisms (i.e. through special tariff structures vs. direct income-support; are specific service components subsidised, e.g. connections)?

¹ The term “sector management costs” or “sector management expenditures” refers to those expenditures needed to undertake policy-making, planning, regulation and monitoring functions. While sector management costs may be relatively small in comparison to overall sector expenditures, failure to account and budget for them would jeopardise a good functioning of the sector.

Section II. C. Budgetary resources

This section could discuss

- How have the level and structure of direct subsidies for the sector evolved over time? (If possible, distinguish between different types of subsidies, such as those to finance capital investments, to encourage connections, to subsidise consumption, targeted to the poor,.....?)
- What have been the sources of those subsidies (e.g. central government transfers, local government taxes,...)?
- What factors have had a major impact in terms of determining the level and structure of direct subsidies for the sector (e.g. decentralisation of responsibilities for water and sanitation services, complexity of administering the subsidies, introduction of output-based aid schemes,...)?

Section II. D. The role of international solidarity (EU cohesion funds, Official Development Assistance, international charities,...) [This section may not apply to all country case studies]

This section could discuss:

1. What is the importance of donors (OECD development agencies and others) in the sector?
2. What is the importance of decentralised co-operation and NGO interventions in the sector? To what extent have they been included in strategic financial plans for the sector?
3. What is the importance of other solidarity mechanisms (e.g. EU cohesion funds)?
4. How does strategic financial planning for the sector relate to harmonisation, resource pooling, SWAs and budget support issues in the country?

PART III: STRATEGIC FINANCIAL PLANNING FOR THE SECTOR [4-5 pages]

Section III. A. Setting and costing objectives

This section could discuss:

5. How are sector objectives determined? (i.e. main features of political process: discussions between different ministries, between national and sub-national levels of governments, stakeholder involvement,...)
6. What were the estimated costs of achieving those objectives?
7. What is the role of available data and analytical basis (in particular financial data and analysis) in the determination and costing of sector objectives?
8. What was known about the financial impact of using alternative technologies for achieving those objectives?
9. Was the time needed to attain the sector targets treated as a flexible variable to reduce annual costs of achieving the objectives?
10. Were education measures included in the mix of objectives / actions?

11. Were institutional development issues included in the mix of objectives/actions?

Section III.B. Deciding on the share of the ultimate sources of finance

This section could discuss:

12. Has a strategic financial plan for the sector been formulated? If so, how was it formulated (who was involved, what analysis and tools were used to support its development,...)? What are its main elements?
13. How are tariffs set? (i.e. who sets tariffs, what criteria are used, what analysis is used to support decisions, is there any consultation process,...)
14. How are direct subsidies for the sector (coming either from the central government budget or from sub-national/local governments) determined? (i.e. who are the main players, what criteria are used, what analytical basis is used to support the decisions, is there any consultation process,...)
15. To what extent is the strategic financial plan linked to regular government budgetary processes?
16. What is the degree of flexibility in the strategic financial planning process to account for changes in the context after the original plan has been finalised?

Section III.C. Value added / Outcomes

This section could discuss to what extent has the strategic financial plan been implemented and what has been the value-added of the strategic financial plan (both in terms of product and process) for the different sector stakeholders. Examples include:

- Has the strategic financial plan been used to support policy decisions in allocating financial resources (e.g. investing more in urban areas and less in rural areas, investing more in sanitation...)?
- Has the strategic financial plan been used to support policy decisions in deciding about sources of finance (e.g. increasing tariffs in urban areas,...)?
- Has the preparation of the strategic financial plan helped to identify alternative technological options to achieve the sector objectives?
- Has the preparation of the strategic financial plan helped to identify technical assistance / capacity building needs?
- Has the preparation of the strategic financial plan helped to identify needed institutional and/or sector governance reforms?
- Has the preparation of strategic financial plans had an impact in terms of credibility of sector plans and thus resulted in increased budget allocations (and, where relevant, increased donor support)?

Section III.D. Lessons learned

This section could discuss:

- What were the major successes, obstacles and mistakes (both in terms of process and analysis) in preparing the strategic financial plan?
- What were the major obstacles in implementing the strategic financial plan (e.g. lack of commitment of key stakeholders, changes in the political or economic context, weak link with medium term expenditure framework,...)?
- Was a quantitative model used to support strategic financial planning? If so, what were the pros and cons of using the model?
- What were the main capacity gaps / skill shortages experienced by the sector authorities in developing the strategic financial plan?
- What has been the role of development partners (OECD governments and others) in encouraging and/or supporting the development and implementation of strategic financial planning for the sector? How could their involvement be improved? [This issue may not apply to all country case studies]
- How often should a strategic financial plan be updated?