

REVISED DRAFT OUTLINE OF THE FINANCING STRATEGY REPORT

Financing Strategies Report (working title)

A Report from the OECD Task Team on Sustainable Financing to Ensure Affordable Access to Water Supply and Sanitation

OECD Secretariat, 5th¹ February 2008

ABOUT THE REPORT

This report will constitute the main output of the OECD Task Team on Sustainable Financing to Ensure Affordable Access to Water Supply and Sanitation (OECD Water Task Team) in 2007-2008. The focus of the report is on financing strategies for the water supply and sanitation sector: why develop them, how can they support policy decisions, how can they be developed, what country experiences do exist, and what can we learn from those experiences. (See annex for additional information on the Task Team and on financing strategies.)

The report will provide analysis and recommendations on when and how developing country governments can develop useful and realistic financing strategies for the water supply and sanitation sector, and how their partners in OECD governments (usually OECD development co-operation agencies, but occasionally as well OECD ministries in charge of environmental and water supply and sanitation issues) and elsewhere can support them in those efforts.

The report will build on existing experiences with strategic financial planning (whether domestic OECD experiences or development co-operation experiences) as well as the additional experiences developed in the framework of the OECD Water Task Team (Burkina Faso, Egypt and Lesotho).

The target length of the report is 50 pages, including an Executive Summary. A second volume compiling the descriptions of the case studies and other supporting material may be also produced.

The final report will be delivered to OECD Development Co-operation and Environment Ministers as an output under the “Framework for Common Action Around Shared Goals” adopted when they met at OECD in 2006. An advanced draft of the report will provide major input to the Synthesis Report of the OECD Horizontal Water Project, to be presented in the 5th World Water Forum in Istanbul in March 2008.

This is a revised version of the draft outline discussed during the Second Meeting of the OECD Water Task Team, held on 23rd October 2007. This new version has been prepared for further discussion at the OECD Working Party on Global and Structural Policies (to be held on 26 February 2008) and at the Third Meeting of the OECD Water Task Team (to be held in on 10-11 April 2008).

REPORT STRUCTURE

EXECUTIVE SUMMARY

Target length: 4-6 pages.

CHAPTER 1. FINANCING WATER AND SANITATION SERVICES

1. **Sustainable finance, key to tackle the MDG water challenge.** This section will introduce/remind the reader about the size of the MDG water challenge. It will discuss the importance of financing issues in achieving the water supply and sanitation MDGs. Building on the findings of the Camdessus Panel and the Gurría Task Force, it will highlight the need for improving ‘the demand side of the water finance equation’.

2. **An evolving context for water finance.** This section will look at how emerging trends, such as decentralisation and new aid modalities, are having and will continue to have an impact on the availability and management of financial resources in the water supply and sanitation sector. The section will also present findings from the OECD-DAC statistical analysis of aid for water and related UN-Water work.

3. **The OECD Water Task Team and this report.** This section will provide the background on the origins and work of the Water Task Team, explaining that the Task Team decided to focus on financing strategies as a way to improve “the demand side of the water finance equation”. It will also provide a short introduction to the remainder of the report, its focus and structure.

Target length: 6-8 pages

CHAPTER 2. THE CASE FOR FINANCING STRATEGIES

1. What is a financing strategy? This section will briefly discuss the concept of financing strategy.

2. **Rationale of financing strategies.** This section will discuss the primary rationale / value added of financing strategies – bringing financial realism to sector strategies, so they can be credible and get implemented. It will briefly discuss the range of revenue-raising and spending policy decisions that can be supported by a financing strategy. It will also discuss the rationale of financing strategies *viz-a-viz* trends in the way OECD development co-operation agencies and other development partners operate (harmonisation, resource pooling, sector-wide approaches –SWAs– and budget support) and how financing strategies may support the objectives of the Paris Declaration on Aid Effectiveness.

3. **Outcomes that can be achieved with financing strategies.** This section will discuss the range of outcomes that can be achieved by developing and implementing financing strategies, such as consensus on realistic sector objectives, more predictable public budget support, improved planning and monitoring of the sector, and better coordination between the authorities and donors towards programmatic approaches.

Target length: 6-8 pages

CHAPTER 3. POLICY LESSONS FROM FINANCING STRATEGIES

Setting and costing objectives. This section will discuss how the financing needs depend crucially on the level of service to be provided. It will discuss what is known about the financial impact of using alternative technologies and how such approaches can support priority setting. It will also touch upon the issue of time schedules for the attainment of sector targets.

Deciding on the share of the ultimate sources of finance. This section will discuss the scope for tariff reform and increased budget support to ensure the financial sustainability of the sector. It will look in turn at the scope for cost recovery in the drinking water sub-sector and the sanitation sub-sector, urban and rural areas, and among poor and better-off consumers. It will discuss affordability issues, including benchmarks and how affordability thresholds evolve in growing economies. This section will also discuss the role of international solidarity in ensuring financial sustainability of the sector.

Allocating financial resources within the sector. This section will discuss how a financing strategy can support policy decisions in allocating finance between sectors (drinking water versus sanitation), territories (urban versus rural, allocation across regions), work areas (sector management, infrastructure, education measures) and different parts of the governance system (ministry of water/central water agency, water regulator, water utilities, regional/local governments,...).

Target length: 10-12 pages.

CHAPTER 4. LESSONS LEARNED IN DEVELOPING AND IMPLEMENTING FINANCING STRATEGIES

1. **Getting the level of ambition right.** This section will discuss the different objectives that a financing strategy can help to address and how the requirements (in terms of stakeholder involvement, tools and data) to conduct the financing strategy depend on those objectives and the country context.

2. **Structuring a financing strategy process.** This section will briefly describe different phases to follow in developing and implementing a financing strategy. The section will also discuss who and why should be involved in developing and implementing a financing strategy, touching upon the role of different ministries, sub-national authorities, local communities, civil society organisations and private sector providers.

3. **Capacity needs.** This section will discuss what capacities are needed to develop and implement financing strategies and how those capacities can be enhanced in developing country governments and relevant stakeholders. It will also touch upon the different tools available to support the development of financing strategies and discuss how different tools are appropriate for different objectives to be achieved by the financing strategy.

4. **Getting the most of a financing strategy.** This section will discuss how the process and results of a financing strategy can be used to facilitate policy reform and achieve results on the ground. It will also discuss the importance of linking a WSS financing strategy to regular budget processes (in particular the medium-term expenditure framework).

Target length: 10-12 pages.

CHAPTER 5. CONCLUSIONS AND RECOMMENDATIONS

This chapter will bring together the analysis developed in the previous four chapters. The short set of recommendations will include recommendations for developing country governments, OECD development co-operation actors (including, when relevant, OECD ministries in charge of environmental and water supply and sanitation issues) and other relevant stakeholders

Target length: 4-6 pages

VOLUME II. EXPERIENCES IN STRATEGIC FINANCIAL PLANNING IN THE WATER SUPPLY AND SANITATION SECTOR

The (possible) second volume would compile the case studies provided by Task Team members. Each country experience is expected to cover sector background, sector financing, and strategic financial planning (according to a common “guideline” issued by the OECD Secretariat).

The list of possible country case studies includes: Armenia, Austria, Burkina Faso, Cambodia, Egypt, Ethiopia, France, , Kenya, Republic of Korea, Kyrgyz Republic, Lesotho, Mexico, Moldova, Mozambique, Turkey, Uganda and Vietnam.

Estimated length: 100-120 pages (assuming 10 pages per case study and around 10-12 case studies).