



E A P TASK FORCE


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Background Paper on The role of central governments to facilitate the development of decentralised WSS services

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Paris, 5-6th of June 2005


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Objective of the paper


- To highlight the role of central governments in the success of decentralisation schemes
- The emphasis is on
 - National strategies (PRSP, IWRM)
 - The institutional framework (appropriate level of decentralisation, tariff regulation, standards...)
 - A coherent financial component
 - revenues from tariffs, taxes
 - intergovernmental transfers
 - debt


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Structure of the paper


- Executive Summary
- Introduction
- The relevance of devolution of water services to subnational levels of government in EECCA
- The mechanisms of intergovernmental transfers
- The development of local capital and financial markets
- A coherent approach to the financial dimension of decentralisation


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Key Messages


- Intergovernmental transfers
 - their magnitude and design are consequential
 - Earmarked grants
 - should be based on a priori standard costs and have a reference to objective performance criteria
 - may result in overspending
 - Block grants; more discretion; most appropriate for regional redistribution
 - Experience from OECD, accession countries


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Key Messages (continued)


- The development of local capital and financial markets
 - It is needed to reach any objective in the water supply and sanitation sector in EECCA
 - It requires that
 - Implicit guarantees and contingent liabilities are clarified
 - The borrower has control over a predictable stream of revenues
 - Some collateral is collectable
 - Mechanisms reduce risks to lenders
 - A global policy package is implemented
 - Intergovernmental transfers
 - Fiscal autonomy
 - Relay at the local level: budgetary decision making, capacity building

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Issues for discussion

- What should be the relative roles of central and local authorities in financing the water sector? How can water priorities best be integrated into national budgets and fiscal transfers for the water sector be made most effective?
- What are the opportunities and obstacles for increasing the access of local authorities to local capital and financial markets?

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