

OECD Task Team on Water Supply and Sanitation

Draft Summary Record of the Second Meeting of the Task Team

AFD Headquarters, Paris (France) – 23 October 2007

Meeting Outcomes

- The Task Team will produce as its main output a synthesis report aimed at presenting to a wider audience the approach of policy dialogue processes based on analysis of financing gaps and options to close them. To that end, the report should be short, explain the concept and rationale of financing strategies methodologies, synthesise lessons learned from existing experiences and provide recommendations.
- Task Team members are expected to contribute case studies to feed into the synthesis report. The OECD secretariat will produce a template to facilitate contributions from Task Team members and make sure those contributions address the issues of interest for the synthesis report. Experiences from all world regions are welcome, including domestic experiences of OECD member countries.
- The synthesis report will also build on two new experiences with financing strategies. Participants supported Burkina Faso as the second additional country case (the first one will be Egypt, as endorsed in the first meeting of the Task Team) and discussed a possible third country.

Opening and welcome

Peter Börkey (OECD) opened the meeting welcoming participants and informing them that, following a change of responsibilities within AFD, Alain Henry had resigned as Chair of the OECD Water Task Team. Mr. Börkey informed participants that AFD had put forward the candidacy of Maurice Bernard to replace Mr. Henry and reminded delegates of the possibility of having two Co-Chairs. The delegates approved the election of Mr. Bernard as new Chair of the OECD Water Task Team.

At the invitation of the Chair, Mr. Börkey reminded participants of the origin of the mandate of the OECD Water Task Team (the 2006 Meeting of OECD Development and Environment Ministers) and the linkages with the OECD Horizontal Water Project.

Progress reporting

Johan Holmberg (EU Water Initiative – Finance Working Group) informed participants of the results of a workshop aimed at comparing available tools to support the development of financing strategies for the water supply and sanitation sector. The two tools discussed in the workshop were FEASIBLE model, developed by Denmark and the OECD, and the SWIFT model, developed by the Water and Sanitation Program (WSP). The main conclusions of the workshop were (i) that the two models have different strengths and weaknesses (FEASIBLE being stronger on the technical-engineering aspects and SWIFT

stronger on public finance aspects) and (ii) that rather than attempting to merge the two tools it would be more practical to present them as two parts of a toolbox so that potential users could choose the most appropriate to their circumstances.

Mr. Holmberg also informed participants of the efforts to identify additional countries to carry out financing strategies exercises. While Burkina Faso has a well developed sector strategy in place, this country has requested support to develop its capacity in using computer-based financial modelling tools in order to be able to respond to possible evolving circumstances (such as changes in political objectives or in macroeconomic performance). The participants supported the selection of Burkina Faso as the second country for a pilot project to be carried out under the aegis of the Task Team, of the EUWI Finance Working Group, and with technical support from the OECD Secretariat. Participants also discussed additional possible countries that could prove good candidates for additional financing strategy exercises to be sponsored by the EU Water Initiative, however without reaching an agreement. Active efforts to engage Ghana have not been fruitful yet. Other possible candidates discussed at the meeting include Lesotho, Ethiopia and Niger.

Vasiliki Manavi (Greece) informed participants of progress with the Egypt Water Policy Dialogue. This exercise is led by the Mediterranean component of the EU Water Initiative, with Greece as lead country and GWP-Med as secretariat. In the first meeting of the OECD Water Task Team it was approved that this exercise will be carried out under the aegis of the Task Team and that the OECD secretariat will provide technical support. Following a mission in June, the exercise has been split in two phases: data collection phase will start shortly with the financial support of the EC delegation in Cairo; the simulations and policy dialogue phase will start in Spring 2008 and finish in Autumn 2008 as to provide input to the Task Team's synthesis report.

Experiences from the field

Ian Arebahona (Uganda) and Robert Burtscher (Austria) focused their presentation on the innovative financing mechanisms being developed in Uganda to respond to the twin challenges of moving to sector budget support and channelling financial resources to the local level.

Mark Harvey (UK) highlighted in his presentation on the Ethiopian case the difficulties of developing a meaningful financing strategy in a country with planning weaknesses and where the political objectives for the sector are unrealistic and rigid. Despite its shortcomings, the Ethiopian financing strategy has been instrumental in maintaining donor support for the sector.

Thomas Fugelsnes (WSP) offered an overview of how the focus on financing strategies in WSP-Africa is evolving from studies and tools to supporting strategy development and setting up systems for decision-making and implementation. He highlighted that African countries emphasise financing strategies as processes to justify claims for additional donor resources, while other stakeholders emphasise financing strategies as approaches that would serve to bring financial realism to the sector.

Maurice Bernard (France) presented the case of the urban water sector in Senegal. Institutional reform, use of contracts (between regulator, asset owner and operator) and decisions to increase tariffs encouraged sustained engagement of donors and have resulted in an important expansion of access to water services. Highlights of the discussion included the need to separate the urban from the rural sub-sectors in order to achieve progress in urban areas, and the fact that in the absence of reliable systems to identify the poor, increasing block tariffs (despite their shortcomings) remain the best available tariff structure to protect the poor.

During the general discussion, the following issues were highlighted:

- the importance of defining financing strategies as approaches built around policy dialogue processes – financing strategies are processes, not products, and what is important in a financing strategy is the process not the tool(s) that support their development
- the need to distinguish between the need to clarify upstream who will pay in the long-run for water supply and sanitation services (tax-payers or users) and the need to decide downstream on the financing mechanisms (including private sector participation) that will allow to mobilise and channel financial resources
- the need to distinguish between sustainable finance solutions for rural and urban sub-sectors, while keeping an overview of the whole sector
- the need to consider all options to minimise the costs of achieving the MDG targets on water, including through a revision of technical standards and regulations
- the need to contemplate the absorptive capacity of the water sector (i.e. the likely increase in unit costs generated when additional finance is pumped into the sector) when developing a financing strategy.

Synthesis report

Roberto Martin-Hurtado (OECD) presented to participants a possible structure and focus of the synthesis report that will constitute the main output of the Task Team. The aim of the report will be to present to a wider audience the approach of financing strategies as policy dialogue processes that, building on analysis of financing gaps and options to close them, contribute to put the WSS sector on a financially sustainable basis. The report will build on existing experiences with financing strategy approaches as well as on the two additional pilot experiences developed under the Task Team. Participants agreed on the importance of such a work and the need to firmly base the report on the lessons learned from recent experiences with financing strategies. The participants agreed that the report should:

- Aim for a short length – certain sections could be moved to annexes
- Be explicitly linked to the Paris Declaration
- Include an opening chapter explaining the rationale for developing financing strategies
- Not include a full separate section on how to develop a financing strategy, but rather direct the reader to the corresponding EU Water Initiative report
- Not include a separate chapter on aid flows to the sector, but take advantage of UN-Water's upcoming work to include references to trends in aid flows to the sector
- Include country experiences beyond Africa to other developing regions, including Latin America.
- Include the experience of OECD countries in strategic financial planning for the WSS sector, involving OECD Ministries of environment in preparing case studies
- Include a recommendations section

Participants agreed that the report will add much value by extracting lessons learned from existing experiences. To that end, the Chair asked the OECD secretariat to produce a template to facilitate the production of case studies by Task Team members. The priority for the Third Meeting should be to produce the case studies.

Next steps and closing

Participants from Turkey presented preparations for the 5th World Water Forum, to be held in Istanbul, and where the work of the Task Team will be featured.

Rémy Paris (OECD) presented the state of preparations for a High-Level Forum on Aid Effectiveness to be held on 2-4 September 2008 in Accra, Ghana, and suggested that the work of the Task Team could provide a useful input into this event. Discussions on the agenda for this forum are currently ongoing and will consider the work of the Task Team.

Mr. Börkey informed participants of the timeframe under which the Task Team will operate until the end of 2008. The milestones are:

- Identification and development of case studies of existing experiences: October 2007/March 2008
- Launch of pilot exercises in Egypt and Burkina Faso: November/December 2007
- Joint Meeting of ENVIRONET and WPGSP (parent bodies of the Task Team in the OECD structure): 28 February 2008
- Third Meeting of the OECD Water Task Team: April 2008
- Fourth Meeting of the OECD Water Task Team: October/November 2008

The Chair recommended that for the next meeting, the secretariat work should focus on developing (in collaboration with Task Team members) draft case studies that will support the report. As part of this work, the secretariat will prepare a format for the development of case studies and may conduct interviews with task team members and other relevant experts.

It is expected that the Third Meeting will focus on progress reporting and discussing additional existing country experiences (including OECD experiences).

It is expected that the Fourth Meeting will focus on discussing results from the Egypt and Burkina Faso pilot experiences, discussing the draft synthesis report, and discussing needs for further work.

The Chair closed the meeting thanking participants for their active participation.