

OECD Expert Meeting on Financing Water Resources Management

10-11 June, OECD Conference Centre, Paris

Draft Summary

Introduction

1. As part of its 2009-2010 Horizontal Water Programme, the OECD is launching new work on financing water resources management (WRM)¹. Other international organisations, such as the Global Water Partnership, the EU Water Initiative's Finance Working Group and the UNEP-DHI Collaborating Centre for Water have expressed interest in joining forces to explore and address policy analysis needs in this area.

2. In order to brainstorm what the main policy analysis needs are and how to address them, the OECD organised an informal expert meeting on 10-11 June. Fourteen experts from outside the OECD and six OECD staff participated in the meeting (see participants list below). The meeting was facilitated by Eric Buhl-Nielsen (PEMConsult).

Summary of presentations

3. The meeting featured a number of presentations:

- Roberto Martín-Hurtado (OECD) introduced the OECD and the OECD's Water Programme, stressing that the OECD wanted learn how to provide added value in this policy area. Peter Borkey (OECD) presented the conclusions of recent work on financing water supply and sanitation (i.e. strategic financial planning), as the starting point for OECD's thinking in the area of financing water resources management.
- Eric Buhl-Nielsen introduced a discussion paper commissioned for this expert meeting. He suggested that policy analysis work in this area could be articulated around a functions/costs/financing logic, and put forward a number of possible policy questions to be investigated.
- Alan Hall (GWP) highlighted the need to look at financing needs related to institutional infrastructure (governance) as well as protective and productive infrastructure. He indicated a need to focus on the strategic level (e.g. not addressing project finance), highlighting that guidance on strategic financial planning for water resource management at the national level is badly needed, and that work in this area could use a similar approach as OECD's work on strategic financial planning of water services.
- Palle Lindgaard-Jorgensen (UNEP-DHI CCW) highlighted that their review of Integrated WRM plans indicates that while laws and policies are in place, functional frameworks are not, with financing aspects in particular being rarely discussed. He stressed the importance of knowing more about the costs and benefits of sound water management, suggested that the development of an approach for strategic financial planning of WRM would be potentially useful, and mentioned that it would be important to involve the multilateral development banks in discussions on financing WRM.

¹ Given the connotations of the term Integrated Water Resources Management (IWRM), one conclusion of the meeting is that work on this policy area would be better termed as "financing water resources management".

- Mike Muller (Wits University) highlighted the need for a conceptual structure -- possibly looking at the policy and regulatory framework, institutions and tools, and infrastructure. He advised that the future work should avoid a normative approach, and to anchor financing WRM work on managing water resources to maximize benefits in support of national development priorities. He suggested doing comparative analysis that would look at the sequencing of measures to go through the “hydrological transition”, the “right” level of expenditures, evolving institutional models, and inter-generational issues.
- Giulio Boccaletti (McKinsey) presented on-going work that pilots a methodology for estimating financial needs in the water sector. The analysis estimates the upcoming water gap (comparing future water needs with existing water resources), identifies and costs measures that would contribute to close the water gap, and estimates the cost of closing the water gap using the most cost-effective measures. Based on the preliminary results of the analysis, the cost of implementing cost-effectiveness programmes would seem large but not unachievable. The analysis also highlights the need for a water governance framework that would allow to champion and implement a cost-effectiveness approach.
- Yann Laurans (EcoWhat) presented on-going work that analyses the cost of implementing the EU Water Framework Directive in the Seine-Normandy basin as well as the likely impact on household water tariffs. He discussed the French financial model (water pays for water), the cost of governance, extent of cross-subsidies from households to farmers in addressing wastewater treatment, the potential for French municipalities of using market-based finance to pay for infrastructure needs over longer timeframes, and the upcoming financial demands of renewing drinking water infrastructure for which no provisions have been made over the last decades.

Key points

4. The discussions brought up the following key points:

- Work on financing WRM is important and timely. While WRM financing needs can be significant, financing aspects are rarely included in IWRM planning, thus undermining progress towards better water resources management. Relatively low cost but critical core functions are often underfunded. While water programmes are very costly, their cost-effectiveness is rarely analysed. Financing aspects of water supply and sanitation (WSS) have been analysed over the last decade and are relatively well understood, while work on financing WRM remains in its infancy (the GWP report *Water Financing and Governance* represents an exception, although it focuses largely on how to put together a financing package).
- Work on financing WRM should start by providing a conceptual or reference framework and taking stock of current policies and practices. The following aspects should be taken into consideration when developing a reference framework on financing WRM:
 - It should not be prescriptive or normative.
 - It should help people to make decisions (differentiating policy from technical variables).
 - It should include a clear, operational definition of WRM.
 - It could help to raise the profile of the environmental component of water discussions.
 - It could usefully take a functional approach.
 - It could build on existing work on financing WSS, including the Strategic Financial Planning and 3Ts² framework (but there are important differences between financing WSS and financing WRM, for example the tariff discussion in WRM is not captured by the “right-to-water” debate as the clients that should pay for WRM tariffs/charges are not households, but utilities and other enterprises).

² Tax-based budgetary allocations, tariffs and other user charges, and external transfers such as ODA.

- It could usefully analyse issues of water allocation, market and policy failures, policy coherence, stakeholder involvement, the political economy of water, and water financing and the climate change and economic crises.
- Work on financing WRM should also look at both governance and infrastructure aspects. Ensuring governance functions are adequately funded is an increasing challenge in many countries (At the same time, water resources cannot be managed without adequate infrastructure investments and operations (protective infrastructure is sometimes “orphan”). Links to water services provision should also be analysed, as financing opportunities will be linked to the value generated in service provision. Water ecosystems as the basis of water for economic uses should figure prominently in discussions on financing WRM.
- Cost is an important dimension of work on financing WRM. Cost estimates or benchmarks or ranges for different WRM functions (including operation and maintenance costs) would be helpful, but would seem more appropriate for a second phase of the work. There is a need to provide a framework to identify (and fund) cost-effective measures. Good practice examples on stakeholder involvement, institutional development and institutional coordination could illustrate ways for minimising costs. The cost reduction potential of using water demand management instruments should also be analysed. The affordability of targets given their associated costs should also be discussed.
- Work on benefits is also important. Examples of the financial benefits of an integrated approach to WRM could be identified. Discussions of the benefits of the different WRM functions (without putting a monetary value) could also be included. Valuing the environmental benefits of WRM, though potentially very useful, would be more challenging and would seem premature. Costs and benefits are often in different geographical and temporal locations. Looking more closely at the beneficiaries (rather than benefits) of WRM would seem promising.
- Analysis of the role and revenue potential of different financing instruments should be a core element of any work on financing WRM. New work could analyse what instruments could be used to pay for the different WRM functions at different points in time. WRM policy and practice is resulting in new beneficiaries that currently do not contribute to the financial sustainability of the system (as the traditional instruments of abstraction fees and pollution charges do not apply to them), thus the potential of new instruments to cover those new beneficiaries could be usefully explored. The role of ODA (by helping to pay for institutional and protective infrastructure) in enabling the private sector to invest in productive infrastructure could be discussed. Looking at the evolution of financing sources is also important – in Europe the first generation of wastewater infrastructure was paid through tax-based subsidies. The topic of earmarked taxes should be also discussed.
- Allocation of financial resources is another important aspect to be analysed. Allocation of public funds within the water sector, setting priorities and improving cost-effectiveness of interventions (there are cases of 30-40% excessive costs) is a critical aspect. Equally important is to explore how to influence the allocation of funds within other sectors (such as agriculture) so that they could be reformed to improve WRM.

Conclusions

5. The expert meeting concluded that there is value in the OECD undertaking work on financing WRM. OECD work should not be conceived as an advocacy piece for more funds for the water sector. Rather, it should provide a “reference framework” to help decision-makers think through the needs and options for funding WRM, as well as the best use of existing resources. The target audience could be water directors and heads of water units in the ministries of finance. It was also felt that such work would benefit from comparing experiences of both OECD and developing countries.

6. A “reference framework” report is only one element of a potentially more ambitious collaborative work programme that could have the 2012 World Water Forum as key milestone. In addition to the on-going work in this area (see para. 6), more in-depth work on issues of benefits, costs, and innovative financing instruments among others, would be useful – this work would seem more promising at country level. Policy briefs, training materials and workshops, and even computer applications could potentially be developed. In terms of checking demand for this type of work from a broader community, financing WRM issues could be included in a number of events planned by the organizations that took part in this meeting.

Next steps

7. The OECD will thus work towards producing a report that provides such a “reference framework”. The report could be built around conceptual work (for which the discussion paper produced for the meeting offers a good basis) complemented with the analysis of current policy and practices. A limited number of good quality case studies would need to be developed. The OECD Secretariat will request OECD member countries to contribute case studies. Other organizations could contribute case studies from developing countries. GWP indicated that they can contribute expert time to the development of the “reference framework” report. Some participants suggested to try to involve the multilateral development banks in this work. Additionally, the work could also build on recent and on-going work, such as:

- the 2007 South Africa’s water pricing strategy;
- the AFD study of financing water governance in the Niger basin due in September 2009;
- an international workshop on financing instruments that the French Water Agency (ONEMA) is planning for November 2009;
- the analysis costing the implementation of the EU WFD due by end 2009;
- new analysis of IWRM plans by UNEP-DHI;
- reviews in the Netherlands on financing instruments and in Nordic countries on nutrient pollution tradable permits; and
- possible work to be undertaken by the OECD Secretariat (in the framework of the EAP Task Force and the EU Water Initiative) supporting policy dialogue on the financing of WRM in one country of Eastern Europe, Caucasus and Central Asia.

8. The OECD Secretariat suggested a possible calendar to deliver the “reference framework” report. An outline of the report should be ready by end September 2009, to be presented at the official OECD body that oversees this work – the Environment Policy Committee’s Working Party on Global and Structural Policies (WPGSP). The Stockholm World Water Week in August 2009 may provide an opportunity to discuss an early version of the outline and of the terms of reference for producing case studies, including with organisations not represented in this expert meeting. Case studies to inform the report could be developed between September and December 2009. An expert workshop to discuss those case studies could take place in February/March 2009. A first draft of the report, including comparative analysis of the case studies, could be prepared by end March 2010, to be discussed in the Spring meeting of the WPGSP. An advance draft could be discussed in an expert meeting in the framework of the 2010 World Water Week. A final draft of the report should be ready by end September 2010, for approval by the WPGSP.