

EU Water Initiative: Finance Working Group
Terms of Reference for the Second Work Programme

1. Background

The EU Water Initiative (“EUWI”) is an effort to increase the effectiveness of the significant financial and technical resources available within the EU and its Member States for overseas development assistance, in order to maximize our individual and joint efforts in meeting the needs of the world's poorest and achieving the MDG targets for water and sanitation of the Millennium Assembly and the WSSD. The Finance Working Group (the “FWG”) of the EUWI is to address the following key objectives:

- To improve the efficiency and effectiveness of existing and future EU aid flows to water, including encouraging innovation, the development of institutional and regulatory frameworks and capacity building.
- To enable the use of development funding as a catalyst to leverage other forms of finance, including donor, user and private finance, to improve access of the poor to water and sanitation services.

In 2003, an FWG was established, and met three times during that year, to complete the First Work Programme. This involved the production of a report identifying the financial challenges facing the water sector, the gaps and overlaps of currently available funding and the need to improve the leverage of existing funds and the efficiency of their use. This report can be found on the EUWI website. Its broad conclusions were that the contribution of the EUWI on financing issues should focus on:

- Improving efficiency of EU aid flows
- Using development funding to leverage user and private finance
- Promoting inclusion of water and sanitation in poverty reduction strategy papers
- Encouraging improved financial effectiveness (output-based aid etc)
- Promoting affordable access for the poor
- Encouraging financially viable integrated water resource management
- Supporting development of economically literate integrated water resource management policies

Following the successful completion of the First Work Programme, the FWG was disbanded. This has allowed a new FWG to be formed to focus on achieving a Second Work Programme. Based on the product of the First Work Programme, the following are the terms of reference for the Second Work Programme.

2. Activities

The goal of the Second Work Programme of the FWG is to perform a demand-side assessment of how funding and finance for water and sanitation can be accessed, through local studies and existing

experiences of FWG members, in order to review financial mechanisms, which have been a success or a failure at

- increasing access to the poor, and
- meeting the needs of the poor, and doing so
- in a sustainable manner and
- in an affordable manner (considering affordability for individuals, water utilities, municipalities, the sector and country budgets).

This goal will be achieved by assessing financial mechanisms currently in use in the developing world. In making such an assessment, the FWG will:

- Identify successful financial mechanisms in order to understand what makes such mechanisms work, how they meet the above goal and how to broaden their reach.
- Identify financial mechanisms that do not work to understand the assumptions and restrictions that result in such failures and the blockages (at any level, from local to national to international) that impede such mechanisms.
- Obtain input from, and coordinate with, AMCOW and other local government and civil society representatives to inform this assessment process.
- Obtain input from, and coordinate with, the regional working groups of the EUWI to inform this assessment process.
- Take into account existing studies, in particular the Camdessus Report and the World Bank reviews of financing in the water sector. The FWG is fortunate to have members who were intimately involved in the production of the Camdessus Report, the World Bank reports and other such studies which will facilitate the use of this information in its deliberations.
- Propose changes to existing financial mechanisms in order better to meet the above goal.
- Propose new financial mechanisms if needed to achieve the above goal.
- Provide advice and support to the European Commission on the ACP-EU Water Facility and to the regional working groups of the EUWI, as requested.

3. Outputs

The Second Work Programme will produce the following outputs. These outputs will be combined into a single report for distribution and for publication on the EUWI website.

i) Analysis of country experience

The Second Work Programme will be based on a demand-side assessment of financial mechanisms. This assessment will use country experiences of the FWG members, based on experiences of successful or unsuccessful financial mechanisms. Where possible, these experiences will be based on feedback from local government and local civil society organisations. To date the following country experience reports have been proposed by FWG members: India (Collaborative Council and Tearfund), Ghana (Holland), Ethiopia (Tearfund), Nigeria (WaterAid), EECA (OECD) and Kenya (ISW). In addition, other FWG members will provide evidence from their own in-country experiences.

Input to the assessment of financial mechanisms by AMCOW TAC members and other relevant organisations and individuals will be critical. Although unavailable for the first meeting, AMCOW

TAC will be involved in future meetings and discussions. Their input in these terms of reference has been sought and they will be asked to contribute their knowledge on the FWG assessment process and in the subsequent development of the FWG report. Links will also be made to the African, EECCA, LA and MED regional working groups of the EUWI, on similar issues.

ii) Survey of FWG experience

The FWG is made up of representatives from a variety of organisations from different sectors, including government departments, private sector funders, private sector operators, NGOs, donors, and multinational and bilateral funders. These organisations have significant experience using financial mechanisms in developing countries. This experience will be surveyed, tested and documented through interactive discussion forums to identify the characteristics of financial mechanisms that encourage and discourage success.

iii) Analysis of supply in the context of identified demand

Based on the survey of country and FWG experience, the FWG will consider in more detail and analyse the financial mechanisms, and how existing financial mechanisms may be modified, or may be combined with other mechanisms, to address the needs of developing countries and the poor. This analysis will also consider institutional, political and other constraints that inhibit financial mechanisms, for example conditions and requirements for access to finance imposed by the local Treasury.

iv) Analysis of findings

The FWG will assess the information and data obtained from Outputs i), ii) and iii), above, in order to assemble a report of its findings for the EUWI and to publicise these findings widely.

In addition to the report of information, data and findings, the FWG will produce a concise proposal of the changes that need to be made to existing financial mechanisms, and if necessary propose new financial mechanisms. This proposal will also address additional services that would improve the likelihood of the achievement of the FWG goals, such as the creation of a separate source of advice on the formulation of financing packages or increased capacity building on the subject of financing issues and mechanisms.

The FWG provides the key link between the EUWI and the ACP-EU Water Facility on potential participation in existing or new innovative financial mechanisms. The results of the Second Work Programme will be an important tool to assist and inform the ACP-EU Water Facility Task Force on innovative financial mechanisms.

4. Work Plan

The FWG will adopt the following work plan.

i) Virtual sharing of FWG experience and preliminary country experiences

In order to provide the groundwork for the process of gathering information and data from the experiences of the various FWG members and the country experience reports, FWG members will provide relevant views and ideas by e-mail, by the end of June, to commence the experience sharing exercise.

ii) Preliminary session on the sharing of FWG experiences

An informal session will be held on the 9th July in London from 13:00-16:00, amongst any interested FWG members who are available on that date, to discuss the information and experience provided by FWG members during the virtual exercise and any preliminary country experience feedback. One of the key outputs of this preliminary session will be to provide a structure for the formal discussions to be held in Stockholm in August.

iii) Formal discussion session

A formal discussion session will be held on Wednesday, 18th August at the World Water Week in Stockholm from 13:30 until 17:00. The FWG will meet to review and discuss the information gathered to date and raise additional issues and ideas, based on the information gathered through the experiences of the FWG members and the structure developed through the preliminary session.

iv) Country experiences

FWG members will provide reports of their country experiences to identify the demand for financial mechanisms and to what extent current financial mechanisms are succeeding in achieving the goals. When reviewing country experiences, efforts will be made to obtain local government, local community and user input when assessing the usefulness of financial mechanisms.

v) Conferring with AMCOW

AMCOW input will be an integral part of the experience assessment process.

vi) Workshops

The FWG will present its preliminary findings at international workshops to obtain input and further assessment from other development and financing organisations. The EBRD has invited the FWG to present its preliminary findings at the PPC in Georgia in October.

vii) Production of Phase 2 report

The best practice and lessons learnt from the above exercises will be subject to review by the FWG and will be formalised in a report. This report will be produced in draft form and submitted to the FWG for comment, before finalisation and publication.

viii) Publicise the report to facilitate access

Once the report is complete, the FWG will work with the EUWI CIS working group to make the report easy to access, and generally available from the EUWI web-site to interested parties including developing countries, donors, NGOs and financiers.

ix) Provide updates and information to the EUWI Steering Group

The FWG will provide periodic progress updates to the EUWI Steering Group to facilitate the flow of information and advice from the Steering Group and other EUWI working groups.