

EU Finance Working Group



Coordinating donor responses on financing water for all and the role of the FWG

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Starting Points



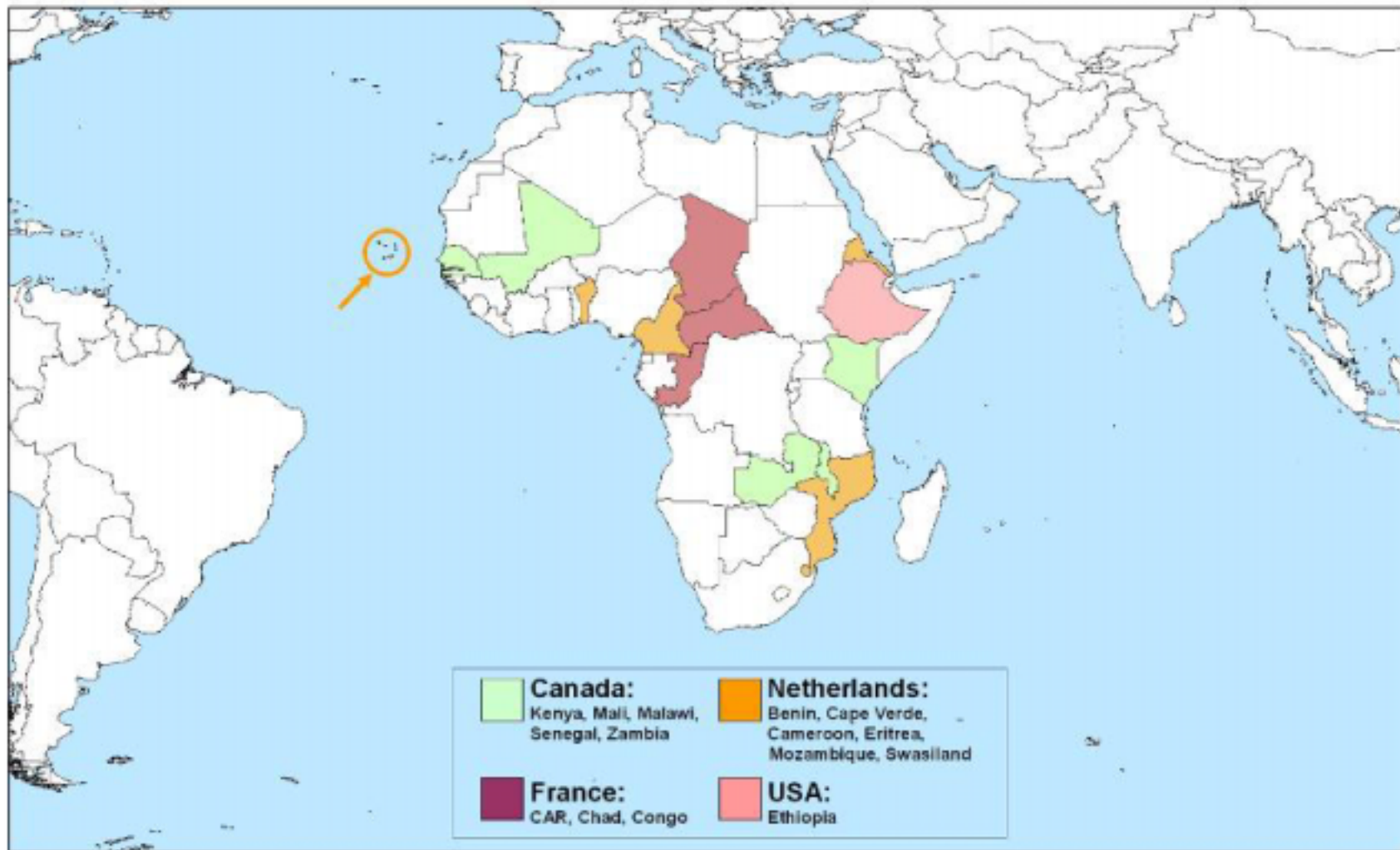
- ⌘ MDGs – grown in political importance, governments and donors accountable
- ⌘ Africa – EUWI regional and poverty focus
- ⌘ Recent initiatives – build on existing processes – Camdessus, G8 etc
- ⌘ Add value to EU Water Facility
- ⌘ Build on phases 1 and 2 of the FWG, the other EUWI Working groups and the strength of the Group members

Coordination – support to country processes



Country	EUWI dialogues	IWRM planning
Mozambique	NL	NL
Zambia	Germany	Canada
Ghana	Danida	GWP
Cap Verde	EC	NL
Congo Brazza	EC	France
Rwanda	Belgium	...
CAR	Fr, Belgium	France
Ethiopia	...	USA (and WB)
Mauritania	France	...

GWP Special Programmes in Africa



EUWI as a coordination mechanism



- ⌘ Can be costly and time-consuming. A means to an end
- ⌘ Part of a process
- ⌘ Focussed on specific purpose avoid trying to do too much
- ⌘ Better when linked to specific activity or in a country
- ⌘ Can provide peer group examination and shared knowledge and experience
- ⌘ Make ODA more effective

Coordination on post Camdessus follow up



- ⌘ Time has shown Camdessus has been very important because of response of IFIs and others, for example:
 - ☒ all of the IFIs recognize water supply and sanitation infrastructure is a high priority and are beginning to scale up their programs
 - ☒ Mechanisms being developed for leverage of private capital in addition to government money and ODA, IFI loans
 - ☒ there is general agreement that funding needs to be in local currency
 - ☒ There is a recognition that governance reforms and financing are inextricably linked
 - ☒ Better understanding of risks (eg currency) and strengthening governance

Examples of *ad hoc* FUG coordination

- ⌘ **Follow Up Group coordinated by GWP on the margins of meetings. Low key, informal, varying participation, almost no cost.**
- ⌘ **Website recently established to capture some of the actions**
- ⌘ **Examples of follow up include:**
 - ⌘ Gurria Panel for 4WWF Mexico
 - ⌘ OECD global forum in Dec 2003 and work on Guarantees
 - ⌘ Regional Dev Banks review of internal mechanisms,
 - ⌘ IADB three workshops on financing with member countries,
 - ⌘ WB establishment of Municipal Fund
 - ⌘ USA support to State Revolving Fund in Southern India
 - ⌘ New instruments, political risk insurance and PIDG.
 - ⌘ Conference Sept 2004 on financing municipalities and sub-sovereigns
 - ⌘ GWP national and regional financing dialogues in S E Asia (2005)
 - ⌘ GWP roundtables and workshops in Africa (planned)

Financing mechanisms and Instruments for Africa



- ⌘ Huge range of instruments available – not well known to water people and suitability unclear/untested
- ⌘ Many instruments difficult to apply – need to streamline but no blueprints
- ⌘ The necessary Governance unlikely in the short term need to reform but at the same time find mechanisms that work now
- ⌘ Human resources as much a constraint as finance
- ⌘ Avoid unrealistic expectations on tariffs and charges

Expand all Sources of Funds



- ⌘ Need balance between the various sources of investment and blending different sources in a smart way
- ⌘ Strategic and targeted use of subsidies
- ⌘ ALL sources must increase:
 - ⊡ domestic governments (by far the largest source at present),
 - ⊡ ODA and MFI lending, is water a national priority?
 - ⊡ commercial loans, private equity and community/voluntary contributions.
 - ⊡ AND Cash Flow for sustainable recurrent finance.

Need to be Realistic



- ⌘ The choice of organisational model for the provision of water and sanitation services should be made on pragmatic grounds – LA models not suitable.
- ⌘ Need to bring in private sector skills but lack of interest in concessions etc
- ⌘ Avoid confusing private finance with private utilities
- ⌘ Sub-sovereign financing but beware – more politically charged than centre and weaker capacity more risk of debt
- ⌘ Capacity should be built by doing
- ⌘ Leverage funds from local capital markets and savings

Expanding the options

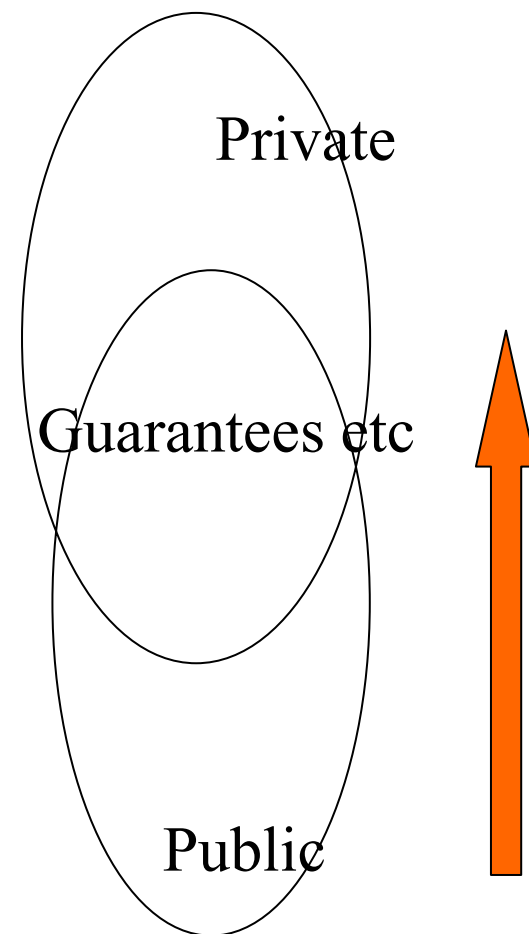
Creditworthy developed markets

Marginal cost recovery, reliability,
loans

Cost recovery OK investment
secure

Moderate cost recovery doubtful
sustainability partial subsidy

Loss making utilities with subsidies



Use of Official Development Assistance



- ⌘ ODA is essential but should be targeted, particularly to improving institutions, capacity etc and not crowd out other funds.
- ⌘ ODA should be applied as a catalyst to lever in more finance and not crowd out other sources, nor smother local or private initiatives.
- ⌘ ODA an intermediary to other sources
- ⌘ Use to develop local financial and capital markets – indirect support to increasing investment.
- ⌘ Technical assistance and sharing knowledge about finance as well as means to promote use of different financial instruments

Role of FWG 1 – Coordinating donor responses



- ⌘ Avoid duplication (eg of IFIs), clear practical focus based on comparative advantage rather than ideals.
- ⌘ Support to project preparation – eg could provide oversight and advice to EC on EUWF proposals and where possible add value eg through linking PIDG to EUWF.
- ⌘ Organise practical studies in country but avoid producing a generic report – the process should be more important than written outputs.
- ⌘ Work with a few selected countries already part of the EUWI Dialogues to get financing onto the water agenda (eg as GWP in S E Asia)

Role of FWG 2

Extending Mechanisms



- ⌘ Provide a facilitation process – information outreach disseminate information on different instruments and mechanisms. Work with others to share knowledge in the countries – work with others GWP, WSP
- ⌘ Focus on financing instruments - adapt existing instruments to African environment (not develop new ideas) – eg use of OBA in Cambodia to subsidise connection charges for the poor. Use of revolving funds etc.
- ⌘ Develop means to support local private sector in Africa – eg through guarantees – PSP has many advantages not just extra funding