

## **ALTERNATIVE TOOLS & METHODOLOGIES TO SUPPORT POLICY DIALOGUE ON FINANCE STRATEGY FOR WATER SUPPLY & SANITATION**

**Paris, Tour Europe  
27 April, 2007**

### **DRAFT SUMMARY OF EXPERTS MEETING:**

#### **Background:**

There is now a broad consensus among donors, developing country governments and many parts of the civil society that improving the governance of the water sector is a prerequisite for any successful reform of the water sector. The report of the Gurria Task Force, presented at the 4<sup>th</sup> World Water Forum in Mexico, states that the significant financial needs of the water supply and sanitation sector can only be satisfied if, in addition to measures to increase the supply of finance, measures to improve the demand (i.e. to strengthen project preparation and financial planning capacity) were undertaken in parallel. Approaches that support the development of strategic financial plans could be instrumental in this respect as they help sector actors to consider options that are financially realistic.

#### European Union Water Initiative Finance Working Group (FWG)

The FWG is giving priority to developing financing strategies since there is an emerging demand for them from partner countries. Many African countries have made political statements on the need to increase financial provisions to water supply and sanitation. There is now an important need to reconcile these statements with the financial realities existing in these countries.

Both, the World Bank's WSP and the OECD/EAP Task Force have developed approaches that could fit these needs. The EUWI FWG participated at the recent EUWI Africa Working Group meeting in Ouagadougou and demand for this type of work was articulated by several countries present.

#### The Water and Sanitation Program – Africa

WSP – Af has been involved in supporting its African clients to develop financing strategies over the past three years. This work has been combined with general support to better planning and budgeting in country where financing strategies provide an overall envelope analysis and more detailed work around internal decision making mechanisms has sought to assist the implementation of some of the strategic issues arising from the financial analysis. A number of WSP-Af clients have expressed interest in developing further sector financial analysis and strategies and these requests fit directly within WSP-Af's mandate to support country owned MDG roadmaps.

## Organisation for Economic Co-operation and Development (OECD)

At a recent Joint meeting of OECD Ministers of Development and Environment (4 April 2006), Ministers called for strengthened efforts to ensure adequate provision of water services as a priority. In response to this and other statements, the OECD established a Member-lead Task Team on *Sustainable Financing to Ensure Affordable Access to Water Supply and Sanitation* to take forward work in 2007/08. This Task Team is chaired by France and agreed to focus its attention on approaches that support the development of strategic financial plans for the water supply and sanitation sector, as such approaches are seen to be potentially supportive of broader efforts described in the Paris Declaration on Aid Effectiveness. The work of the Task Team will consist in collecting and analysing good practices that are available in OECD member countries, and IFIs, conduct pilot studies in two or three African countries, and summarise this experience in a synthesis report.

Outcomes of this work will form an input to the 5<sup>th</sup> World Water Forum (March 2009) in Turkey and to a proposed Joint Meeting of Environment and Development Ministers in 2009.

### **Objective:**

The purpose of this meeting was to bring together a small group of experts working on two financial planning tools developed by the World Bank WSP (SWIFT) and the OECD/EAP Task Force (FEASIBLE) respectively used in Africa and in the countries of the former Soviet Union. The meeting objectives were to:

- To share experience with conducting policy dialogues on the financing of water supply and sanitation infrastructure in developing countries;
- To compare SWIFT and FEASIBLE, and to discuss whether the two tools could be merged or integrated into a toolbox;

The Water & Sanitation Programme and the OECD EAP Task Force/COWI presented their work and tools (SWIFT – WSP / FEASIBLE – OECD EAP TF/COWI).

The meeting was an agreed next step for both the EUWI FWG and the OECD in taking forward their work plans in 2007/08.

### **Key issues of the discussion:**

The meeting started with a discussion of experience in supporting policy dialogue on the financing of water supply and sanitation. The key to a successful policy dialogue lies in the process rather than in the tool. All cases studies discussed revealed the following critical factors/issues for a successful dialogue on policy and financing strategies:

- Essential to have leadership of the process
- Is an iterative process that requires – consensus & ownership
- Requires an understanding of the institutional setup – decision making process / implementation / monitoring
- Should influence / integrate into the budget processes – annual / MTEF
- Be informed by policy considerations – e.g. EU accession country process / compliance with Water Framework Directive; MDG targets; National development plans

- Have the engagement of the Finance Ministries
- Need time and continued presence of external agencies to support process
- Should include capacity building to institutionalise process

The discussion then went on to focus on the tools, and there was a consensus that both SWIFT and FEASIBLE were potentially useful tools for governments.

While the meeting recognised some overlap of the tools' functions they also seemed to differ significantly in some aspects. While more work is needed to compare the two tools in detail, the meeting preliminarily pointed to a more sophisticated public finances module in SWIFT, and to more sophisticated modelling of investment scenarios in FEASIBLE. The meeting also stated a key methodological difference in the way that costs were being calculated: SWIFT uses a unit cost approach, while FEASIBLE relies on generic cost functions. It was also stated that the scope of the tools was different, with FEASIBLE being more integrative than SWIFT, which relies on connections to other models to cover the same scope as FEASIBLE (ie, for sanitation, and the calculation of unit cost).

The implications of these differences were discussed at the meeting, but no firm consensus emerged. There was agreement, however, that it would not seem to be practical to merge the tools, which would require significant programming work, but rather to consider them as elements of a tool box, and define their respective (mostly complementary) properties for the appreciation by potential users.

The meeting also found that both tools require a certain level of data which may or may not be readily available from governments but this was not perceived as a key constraint to the use of either tool. In fact it was commented that the tools provided a rationale for governments to improve their data.

### **Outcomes:**

The group agreed that it was important to broaden knowledge of the work discussed to a wider audience. Therefore, next steps would include WSP and OECD/EAP TF updating their respective policy briefs on the two tools and the FWG to commission a guide to the approach to policy dialogue and financing strategies. In addition the group discussed commissioning a paper that would assess the needs of financial decision makers which could support the further development of both tools and be used in preparatory phase of a policy dialogue when identifying key stakeholders.

### **Future work in Africa:**

It was agreed that the OECD, the WSP and the EUWI FWG would work jointly to identifying potential countries interested in developing financing strategies and to implement a pilot project in at least one of them. The OECD Task Team, lead by France, would provide a framework and support to this work.

**Presentations will be made available to participants shortly**

## ANNEX

### Participants list for joint OECD-EUWI Finance Working Group-WSP Africa (World Bank) meeting to discuss tools and approaches for the development of financing strategies for the water and sanitation sector

27/4/2007

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