

MINUTES FROM THE EUWI FINANCE WORKING GROUP MEETING

Stockholm on 16 August 2007

These minutes summarise the main points arising from the Working Group update, presentations and discussions that took place at the EUWI Finance Working Group (FWG) meeting held during Stockholm Water Week on 16 August 2007. (Please see the Agenda and the list of attendees at the end of this report).

All presentations are available on the FWG members pages of the EUWI website: www.euwi.net

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WELCOME & INTRODUCTIONS (SEE PARTICIPANTS LIST)

Johan Holmberg (Chair) welcomed participants and reviewed the agenda. Participants introduced themselves.

FINANCING STRATEGIES

The Chair made a short presentation on: What is a financing strategy?

Definition:

“ A time-bound plan for sustainable financing of capital investments and O&M in the WSS adopted by national, regional and local government and embraced by major stakeholders with a view to achieving a set of SMART targets” (modified from COWI 2007)

The EUWI FWG has been involved with implementation of two tools & methodologies to support the development of national financing strategies for WSS:

- 1) OECD approach using FEASIBLE developed for EECCA region
- 2) WSP/SWIFT developed in response to African demands

Summaries of the presentations of Financing Strategy work in Mozambique and Moldova follow the discussion summary

The main points from the discussion were:

- Definition of Finance Strategy should include: sector management costs, regulation / policy settings, desegregation of ministries (soft goods) not just infrastructure.
- The key is in the approach not the tools per se, the process behind the development of a financing strategy for WSS will make the strategy successful.
- The process is important to ensure “ownership” within the country and by govt.
- In order to be sustainable the finance strategies need to be tied into the budget processes within countries e.g. MTEF, annual budget processes.
- The use of the tools injects rigour into the process which was viewed as a positive outcome.
- The tools are not “user friendly” and do require technical support.
- The process is iterative and can stimulate policy dialogue on necessary reforms and prioritised investments vs. “wish list”.
- In both countries the work has highlighted significant gaps in finance needs to achieve MDG targets.
- Both models assume full utilisation of available funds.
- Private finance can be included in the modelling but majority of funds are from government and bilateral / multilateral donors.

- Finance strategies do not have to be just about investment priorities and sequencing, they ought to highlight areas that need to be addressed prior to investments e.g. capacity building in order to absorb funds at regional and local levels see Ethiopia EUWI CD Finance Strategy

Action pts for EUWI FWG

- Share information to FWG members planned on country level work during appropriate stages during the development of financing strategy to find areas for collaboration and funding.

Thomas Fugelsnes, WSP

Mozambique: MDG Roadmap

Objectives:

- Build a consolidated sector 'strategy' for the rural water sub-sector
- Understand the cost implications of reaching sector targets
- Steer implementation in context of emerging decentralization

Emerging Issues

Draft financial analysis implies:

Data gaps are considerable

- Need to develop a full SIMS to facilitate comprehensive data collection

Capital finances are insufficient to meet MDGs

Cost recovery is low

- Increase tariffs or decrease costs
- Use of sustainable technologies/ operating models is required
- Increased financial support to operational support structures at provincial and district level are required

Consolidated decentralized funding mechanism is required to ensure equity in financing

Way forward

Baseline figures to be revised and analyzed

Fully modelled policy scenarios to be developed

- Managing decentralization □ development of a formula transfer
- Harmonization and funding equity
- Other financial mechanisms for targeting funds

Assessment of data gaps in existing sector data

- Scoping study for Sector Information and Monitoring System (SIMS)

Development of Funding Packages

Xavier Leflaive, OECD

Moldova: National Policy Dialogue on Financing Water Supply and Sanitation

Sector Objectives

Millennium Development Goals (by 2015)

- To reduce by half the proportion of the population without sustainable access to improved water and sanitation.

Reduction of pollution to international waters

EC Directives

Realistic Approach

Use Baseline scenario (or similar in financial terms) as initial building block for future development.

As transition to a market economy proceeds and per capita income improves, gradually increase user charges and investment measures to attain government targets in the following order of priority:

- Meeting the Millennium Development Goals
- Reduction in pollution to international waters
- Compliance with EC Directives

Action required

- Establish independent regulator to remove political interference (currently being considered by Government)
- Clarify roles and responsibilities within sector to eliminate overlapping and duplication of functions (as approved in the PRSP)
- Regionalisation of management to improve management capacity and remove inequalities between rural and urban tariffs (currently being considered by Government)
- Harmonise with EU and International standards, regulations and procedures to create a more favourable investment environment (as approved in the PRSP)
- Rational, cost-effective use of scarce resources by concentrating on priorities (also a recommendation within the PRSP)
- Technical assistance for capacity building, and planning a realistic, affordable and prioritised investment programme

FINANCING SANITATION

Summaries of the presentation on financing sanitation follow the discussion summary

The main points from the discussion were:

- Investments at under \$2m require collaboration with partners at country level for project preparation.
- Good projects can be “hijacked” by other implementers with grant money. “Too much cheap money” crowding other investors.
- SNS Reaal can lend in local currency and at local market rates supporting local financial market.
- SNS Reaal provides partial guarantees and looks for social guarantees amongst the local project partners to ensure a level of shared responsibility.
- Waste.nl can act as broker to find and provide technical assistance to its partners to developed projects for funding from SNS Reaal Water Fund up to 50% of project costs.
- There is a gap as the project preparation, e.g. Waste.nl inputs, needs to be funded. Sustainability of grants funds required to initiate this process.

Action pts for EUWI FWG

- What is the potential to scale the Water Fund model?
- Are there opportunities for other partnerships with SNS Reaal as well as Waste.nl

Kajetan Hetzer, SNS REAAL SNS REAAL WATER FUND

Scaling-up towards bankability: Looking for leverage & efficiency

Water as key factor for sustainable development: economical, environmental and social

- (especially also poverty reduction “Base-of-the-Pyramid”).

Water sector (infrastructure) finance can develop

- local entrepreneurship and domestic financial markets.

Missing link: Mobilisation of sustainable sound capital from financial markets in the “North” & the “South” / domestic.

Open-minded exploration of creative partnerships and innovative mechanisms:

- Public Private Partnerships
- Innovative Finance (who, how, what & blending)
- Stakeholder management

Key criteria SNS REAAL Water Fund

1. Sustainability
2. Stakeholder engagement
3. Efficiency and quality of operations based on partnerships
4. Customised finance construction / financial engineering

Assessment Risks & Opportunities

1. Political: expropriation, political interference, devaluation
2. Legal, regulatory & contractual
3. Assessment profile project owner
4. Stakeholder and enabling environment
5. Integral Water Resource Management
6. Appropriate solutions / technology
7. Commercial: tariff, cash flow profile, credit risk

Specific water criteria: 6 guiding principles on project design

The following core values are leading principal headings:

1. Sustainability (people, planet, profit, governance)
2. Equality (access and acceptance)
3. Functionality (complying with the needs and local context)
4. Stakeholder engagement: participatory approach, demand driven
5. Affordability & Willingness-to-pay
6. Accountability, ownership & risk sharing

The criteria aim to provide the essential check for the investment assessment.

However the criteria are more than simply issues – they are the values that run through the entire decision making process for investments in water with respect to the concept, conditions, implementation and monitoring.

It is recognized that these criteria differ and change per region and in time.

Gert de Bruijne, Waste.nl

Mobilizing Private Investments for Sustainable Sanitation

WASTE facilitator and adviser

- Integration of solid waste and excreta waste management
- Decentralised management and implementation
- Support to local private sector / sustainable livelihoods
- Financing of Sanitation with SNS Reaal Bank
- Sustainable waste management based on a mix of approaches
- Resource and nutrient cycling within (urban) districts.

ISSUE 1: 2003 – 2006 (4,5 mill. Euro)

- The Philippines, India, Kenya, Mali, Costa Rica

Lessons learned

- Sufficient local liquidity
- Capacity to make project bankable need to be developed
- Simultaneous projects will provide generic experience
- Sanitation in all urban areas have to be the responsibility of a legitimate institution that is accountable to its clients
- Demand needs to be financially harnessed

ISSUE 2: 2007 – 2010 (14 mill. Euro)

Enable local stakeholders, to develop and implement practical sustainable solutions to meet the Millennium Development Goals

TRUST in Africa: 2007 – 2010 (7 mill. Euro)

- Ethiopia, Kenya, Mali, Zambia, Malawi
- 50% co-financing by SNS Reaal Water Fund
- Stakeholder guarantee lending base
- Sanitation service provision mandate for WSS utilities
- Revolving facility within WSS utility
- Strategy for total sanitation in the cities

Prognosis

- Until 2011: 62,500 sustainable sanitation facilities (52,500 on investment + 10,000 on return on investment) can be achieved till 2011
- Until 2017: estimated annual construction of almost 6000 toilet facilities (incl. supporting systems) as result of strengthened capacities and return on investment.
- Total until 2017: construct 100,000 toilets reaching 500,000 people (appr. 13.50 euro per capita)

Why a partnership with SNS Reaal?

- Increased confidence of local financial investors
- mobilise the resources private sector
- challenge and opportunities of a PPP
- strengthen focus on (financial) sustainability
- (to demonstrate) the advantage of a stakeholder approach (beyond lip service)

Key ingredients to convince investors

- Local institutional capacity
- Sustainable sanitation service provision
- Perspective on cost recovery (local demand)
- Market of scale based on demand

OPERATIONS OF THE EUWI FINANCE WORKING GROUP

Johan Holmberg presented the current work plan and proposed activities for 2008-2009. The work plan was discussed and endorsed (see work plan attached).

The EUWI FWG will be receiving a contribution from the ACP-EU Water Facility which will enable the FWG to prepare financing strategies in 2 additional African countries. It was agreed the FWG should continue its collaboration with OECD and WSP in preparing the strategies.

In addition it was agreed the FWG will continue to provide support to capacity building activities in Africa and EECCA.

The FWG members also supported the continued Chairmanship of Johan Holmberg for the duration of the work plan and the current secretariat arrangements within Global Water Partnership.

It was agreed the Secretariat would seek ways to engage the FWG members more effectively in the work plan activities.

AGENDA

Date: Thursday 16 August 2007
Time: 9:00 – 13:00 tbc
Location: Norra Latin, Room 261

1. Welcome FWG Chair 9:00 – 9:15

2. Financing Strategies 9:15 – 10:30

Update on FWG projects – lesson learned and opportunities for EU MS and other to take forward outcomes; planned activities 2007/08 OECD/WSP/FWG

- a. WSP – Mozambique (& possibly previous work in Kenya)
- b. OECD – Moldova (& possible other EUWI EECCA WSS work in Armenia)
- c. Planned activities 2007/08 (following AWG meeting outcomes)
- d. Discussion

Coffee Break 10:30 – 10:45

3. Financing Sanitation 10:45 – 12:00

Examples of the successful application of banking and investment principles in the provision of loan finance for sanitation in developing countries. (Continued from AWG meeting on 13 August)

- a. Waste NL
- b. SNS REAAL Asset Management – Water Fund NL
- c. Discussion

4. Operations of the FWG 12:00 – 12:45

- a. Review of work plan 2006/07
- b. Agree activities 2007/08
- c. Financial status and funding of FWG & work plan
- d. Review of Secretariat (e.g. Programme Admin post & chair)

5. AOB 12:45 – 13:00

PARTICIPANTS LIST

FWG members

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Observers / Other EUWI WG members

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WORK PLAN 2008 – 2009: AFRICA REGION

EUWI OBJECTIVE	Activities:	Means:	Costs:	Pre-conditions
1. Provision of financing expertise at country level in response to requests	a. Technical assistance to develop country level WSS finance strategy	<ul style="list-style-type: none"> • AWG / FWG meetings • Collaboration between FWG key partners e.g. WSP/ OECD /GWP on design, preparation & implementation of financing strategies • Collaboration with EU MS / EC at country level • Consultancy contracts 	<ul style="list-style-type: none"> • Meeting costs¹ • Consultancy contracts <p>Budget 2008/2009 €500,000</p>	<p>Selection criteria for country level activities in consultation with the Africa Working Group:</p> <ul style="list-style-type: none"> • strong demand from the beneficiary; • political stability in the beneficiary country to allow for continuity in the dialogue; • EU MS donor involvement and interest; • a policy for the water and sanitation sector is in place; • timeliness/opportunity to influence the reform process; • capacity to implement reforms in beneficiary country;

¹ Meeting costs: assumed to include all travel costs (flights, per diem, etc) for FWG & other participants

EUWI OBJECTIVE	Activities:	Means:	Costs:	Pre-conditions
2. Maximise opportunities for accessing EU resources available for support	<ul style="list-style-type: none"> a. Develop guidance on approach, tools and methodologies to develop WSS finance strategies b. Produce studies, analysis and reviews of financial resources in water sector to inform water sector practitioners. c. Provision of Adhoc technical assistance 	<ul style="list-style-type: none"> • FWG membership • Joint meetings (with key partners) • Collaboration between FWG key partners e.g. WSP/ OECD /GWP on best practice • Collaboration with Donors / IFIs / and other providers of finance • Consultancy contracts 	<ul style="list-style-type: none"> • Meeting costs • Publication costs • Consultancy contracts <p>Budget 2008/2009 €50,000</p>	Demand driven
3. Increased knowledge of finance mechanisms and policy tools for water-related development	<ul style="list-style-type: none"> a. Workshops b. Seminars 	<ul style="list-style-type: none"> • Collaboration between FWG key partners e.g. WSP/ OECD /GWP others on capacity building • Consultancy contracts 	<ul style="list-style-type: none"> • Meeting costs • Publication costs • Consultancy contracts <p>Budget 2008/2009 €50,000</p>	Demand driven