

**The follow-up actions
on the recommendations of the World Panel
on Water Infrastructure Financing**

Michel Camdessus

*Former Managing Director of the International Monetary Fund
and
Chairman of the Water Panel*

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Mr President,

I am tempted to open my remarks, not by the traditional opening joke, but by quoting you. You said, in a memorable occasion : “I believe that poverty in a world as knowledgeable and as resourceful as ours is simply unacceptable. It is not an immutable condition ; public policy and action can rid us of this scourge. This is what development is all about”.

I share so deeply these views that, sometimes after leaving the IMF, I couldn't but accept the offer to come back to the development field to chair the World Panel on Water Infrastructure Financing. This has been for me -due chiefly to the remarkable group of persons we were able to assemble for this purpose- a most stimulating and, at times, moving experience.

Before turning to the Panel's conclusion and the good start in its implementation, let me pay tribute, Mr Chairman, to the remarkable contribution the ADB, through yourself, Mr Alfredo Pascual and his team, brought to our work. As the work of the Panel was advancing toward its conclusions, it was my pleasure to observe the distinct convergence of our views with the ongoing work of the ADB to develop its water policy. Needless to say also that the seminal meeting we held in your headquarters, here in Manila en April 2002, was quite a turning point in our work and brought us to several of our most important conclusions. That meeting was quite an illustration of something I see as a unique feature of the work of the Panel and of its report. It is not by far only a precise, highly professional work of a group of eminent experts. Of course - except for their chairperson- they were very eminent people ! The fact is that confronted with the tragic situation of the world as far as water is concerned and its extremely gloomy prospects for the next decades, these people truly reacted as human beings with their hearts and brains and didn't refrain to offer -in full independence- very radical suggestions, whose real extent was not by far immediately perceived. What was in a nutshell our message ? At the start of this Third Millennium, more than one person in three in the world -including in Asia and Pacific region- suffers hardship and indignity from the problem of water.

The root cause of this problem is the negligence of mankind and our resignation in the face of inequality. Water is one of the world's worst injustices, perhaps because it is above all an injustice to women, which is why it is largely unspoken, and one of the most difficult to correct.

Over the next fifty years, more than half of humanity is threatened by “water stress” ; nevertheless, the dream of pure water for all still unites us.

For all its evident weaknesses, the report carries a basic good piece of news. The dream of pure water for all can be realised. It can be done by prolonging for a further ten years the effort to which we are committed from now to 2015 to achieve the MDGs to reducing by half the proportion of the world's population without access to water and sanitation. This is the challenging task for the current generation of world leaders !

This effort must involve all parties acting together, while in the past they have too often tended to shift responsibilities to each other. The problem needs tackling at a global level, and can only be solved if all the various parties accept the need to change their approach, in some cases radically. This applies not just to governments in the North and South but also to towns, regions, non-governmental organisations, communities and civil society, public services, companies, banks, multilateral organisations and others. Each must redouble its efforts.

The financial needs can be simply stated. Financial flows need to at least double, and need to come from financial markets, from water authorities themselves through tariffs, from multilateral financial institutions, from governments, and from public development aid, preferably in the form of grants. This doubling, or more, of the volume of Finance didn't daunt the group. The world is capable of it. But it will make no sense, and the finance will not be forthcoming, unless there is a corresponding effort to reform the way in which the entire world deals with its water problem. This concerns those at all levels of responsibility, from village communities up to the United Nations. The first set of our proposals has been addressed to these preconditions, which are essentially about responsibility, the participation of civil society, decentralisation and transparency.

This was the message. The more we go now the better we perceive how intrinsically governance and finance are connected. Water supply and sanitation and local government reform are strongly interlinked; similarly, one of the key concept of the Panel report, the sustainable cost recovery is central for achieving millennium development goals in this fields. Of course, all these views and the more than 80 proposals of the report were probably too recent -and too blunt- too unexpected also, for having been perceived in depth when the Water World Forum met in Kyoto last March. But the conference took note of it and its proposals started permeating in major world fora during the following months : in the Development Committee in Washington, in the OECD and the European Union. All of that culminated in Evian, the 1st of June, by the adoption of a G8 Action Plan which closely follows the Panel recommendations. This is, then, the first and possibly most important follow-up contribution so far to its work. It is worth to sum up the gist of this Action Plan. It defines five key priorities by the promotion of which the G8 are committed to playing a more active role in the international efforts towards achieving the Millennium Development Goals (MDGs) ; these priorities are the following :

- promoting good governance,
- utilising all financial resources,
- building infrastructures by empowering local authorities and communities,
- strengthening monitoring, assessment and research
- reinforcing engagement of international organisation.

Speaking here, at the ADB, it is perhaps important to give more details on what the G8 meant when referring to utilising all financial resources and reinforcing engagement of international organisations.

To utilise all financial resources, the G8 declared to be committed to :

- give high priority in Official Development Aid allocation to sound water and sanitation proposals of developing country partners. This can be a catalyst to mobilise other financial flows ;
- help mobilise domestic resources for water infrastructure financing through the development and strengthening of local capital markets and financial institutions, particularly by :
 - establishing, where appropriate, at the national and local levels, revolving funds that offer local currency,
 - appropriate risk mitigation mechanisms,
 - providing technical assistance for the development of efficient local financial markets and building municipal government capacity to design and implement financially viable projects,
 - providing, as appropriate, targeted subsidies for the poorest communities that cannot fully service market rate debt ;
- encourage international financial institutions (IFIs) to give the necessary priority to water ;
- promote cost recovery with “output based aid” approaches to ensure access to services for those least able to afford them ;

- promote public-private partnerships (PPPs), where appropriate and suitable, particularly by inducing private-sector investments and encouraging use of local currency.

Even more directly relevant to ADB, under “reinforcing engagement of international organisations”, the G8 specified the following :

- “We underline the need for the United Nations to take a key role in the water sector. We stress the importance of reinforcing co-ordination within the UN system, and between the UN system and the Bretton Woods institutions, the regional development banks and various stakeholders.
- We request the World Bank, in consultation with other IFIs, to study and recommend necessary measures to implement the following proposals made by the World Panel on Financing water Infrastructure :
 - using their financing instruments in a more flexible manner to allow loans directly to sub-sovereign bodies, where appropriate,
 - developing guarantee and insurance schemes for risk mitigation,
 - addressing the issue of sovereign and foreign exchange risk coverage”.

As you could imagine, this language hardly caught the eyes of the reporters in Evian more fascinated by the way a few violent demonstrators were performing in the elegant streets of Lausanne ; the risk was then high that both the Panel report and the G8 Action Plan end up on the shelves, joining then many of their predecessors. So far, I am happy to say, it has not been the case. Many here know pretty well how active the ADB has been in working in the follow-up business, under the leadership of its President. Many others took similar steps. Let’s see what already has been made. This, then, will allow us to make a few suggestions for the future.

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The first implementing step was taken of course by the Development Committee in the occasion of its meeting in Dubai. The Committee’s communiqué had a particularly strong language inviting the World Bank’s Group to develop its cooperation with member countries to make sure that its action plan is implemented as expeditiously as possible in the framework of their national development strategies.

Ater such encouraging endorsements, where are we a few months later ?

Let's start by you, the family of the multilateral financial institutions (1).

One can fairly say that the World Bank and the Regional Development Banks (RDB) have been active in seeing how to respond to the three flagship measures underlined by the G8 Action Plan : guarantee and insurance products for risk mitigation, including coverage for sovereign and foreign exchange risk and, of course, efforts to provide loans to sub-sovereign entities where appropriate. These efforts to unale the institutions to be effectively responsive are particularly noteworthy at a moment when, for various reasons, the atmosphere for active involvement in this field is less than buoyant. Suffice to say that private financing has decreased in the past years. Particularly worrying is the fact that the already small number of international private operators in water supply and sanitation is facing difficult cash flow situations and reducing their financial exposure in the sector. This adds to the need of alternative financing approaches utilising hybrid schemes, for instance public utilities operating under commercial law combined with private financing.

According to the reports I have received, I can say that all IFIs are working in these areas highlighted by the World Panel on Financing Water Infrastructure. All institutions are stepping up the deployment of their instruments. IFIs recognize that they are uniquely positioned to provide risk mitigation for water supply and sanitation projects. Similarly they recognize the importance of support to sub-sovereigns in the water supply and sanitation sector, including technical assistance for reform, capacity building and financing. Most IFIs are presently considering how to increase financial and technical support to sub-sovereigns.

One can observe also efforts toward increased cooperation between them, particularly at country level and on co-guarantee arrangements, joint marketing of instruments, etc. This increased cooperation should normally be extended to cooperation with bilaterals to facilitate packaging sub-sovereign financing together with TA and capacity building.

¹ I refer here particularly to the African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank (IADB), Islamic Development Bank (IsDB), World Bank (WB), International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA).

Particularly noteworthy among these collective efforts of the RDB are the initiatives in the field of water for the poor. Among these initiatives, I would like to underline the efforts of ADB to catalyze water financing for the rural poor under its Partnerships for Action launched at the 3rd World Water Forum by ADB and its collaborating partners. I understand that the initiative is being piloted in Vietnam and will be replicated elsewhere. Its scope includes rural water supply and sanitation, water for livelihoods and sustainable environmental management, and investments to reduce vulnerability to water disasters. Private sector participation will be promoted through innovative approaches in rural water supply, sanitation, and groundwater irrigation. As far as I am concerned, I would see there a particularly promising and exemplary domain where your resources including those resulting from the replenished Asian Development Fund should be invested. The new grants element of the Fund should be particularly relevant for such purposes.

Your sister, the African Development Bank, is also adopting valuable steps in this field through its proposals for a Rural Water Supply and Sanitation Initiative.

I would like to be equally precise in talking about what bilateral are doing. Short of a proper device to monitor ongoing progress I cannot but tell you that in the context of the G8-Africa partnership (NEPAD), water supply and sanitation is part of the key priorities of the agreed African Action Plan endorsed in Evian. I can mention also that my own country -France- has decided to double the ODA amounts she devotes to the water sector and is preparing the needed legislation to develop on a broader scale the decentralized cooperation and financing which could supplement the government contributions.

This problem of the need of putting in place an effective device to track national and world-wide developments for the implementation of the Millennium Development Goals brings me back to the multilateral ground and particularly to the Panel recommendations related to a major gap in the global institutional system that would have to be filled. No single international organization has a clear and undisputed role for monitoring water. A number of international bodies, fulfil valuable functions in this respect. But none has the key mandate of being a global "control tower" systematically collecting, evaluating and publishing data on the performance of the various parties. The Panel thought that a "global control tower" with the above mentioned function would be indispensable. It could be formed from the resources of existing units, reformed, coordinated and supplemented, as necessary, or it could be a new body. My personal preference being of course for the first approach. The "control tower" would produce an annual report and its activities should be conducted in full public transparency.

To complement this work and to ensure the right conclusions are drawn and that any necessary action is taken, the Panel recommended that a group of independent “wise persons” of acknowledged calibre and standing be formed with the task of evaluating ongoing developments, appraising the information collected” and making any suggestions judged appropriate to achieve the water MDGs.

It is my pleasure to tell you, following my conversations with the Secretary General of the UN and his staff, that the follow-up work on these recommendations is pretty well advanced and that the appointment of the “wise persons” group could now intervene pretty soon.

As you can see, time has not been lost so far, and one can identify in many relevant fora a good momentum toward the implementation of the Panel recommendations. This is, nevertheless, only a good beginning and a lot more needs to be accomplished before we could be reassured about the needed steps for the implementation of the three-phase strategy the Panel has laid out. As you remember, launched in 2003 -the International Year of Water- the strategy should go through an initial stage ending in 2006 on the occasion of the 4th World Water Forum. This meeting would provide an opportunity to review the measures endorsed at Kyoto, at the G8 meeting at Evian in June 2003 and at the subsequent gatherings -and the actions taken to implement them-. By 2006 most of the necessary measures proposed in the report should have been taken, or should be on the way of yielding results. 2006 would also be a good vantage point for making any necessary corrections of trajectory for targeting the key 2015 MDGs. The period 2003-06 would constitute the first phase.

The period 2006-15 would then be the crucial second phase, containing the main push towards fulfilling the MDGs.

The third phase would be the period 2015-25, when the world community could realise the vision of universal water and sanitation, and the broader aim of water security, if the same intense effort and focus were maintained.

All of this tells us very simple things about the next indispensable steps. All actors must continue being mobilized. No one could rest on too fresh laurels. This is indeed the temptation, together with the never-ending call of “business as usual”. Of course we would find plenty of justifications for it. Not only the slow progress of some actors, the limited demand for such investments., the risks and costs or time-consuming aspects of such projects, the need to have a very incremental approach, etc. Sure ! But nobody should take refuge in such considerations for leaving aside the powerful invitation all actors received to double as rapidly as possible their level of financing of

the sector : a call particularly pressing to the IFIs and the RDB in view of the central role they are invited to play to realize the water MDGs, to catalyze by their own action the reform efforts of the others and be central in promoting the public private partnership crucial to respond to the extremely quick urbanisation of developing countries. But let me be clear. Even if a lot remains to be done by multilateral institutions, more than ever the member countries must demonstrate their own determination to deliver on their commitments. This is true particularly when talking about bilateral partners contributions to the overall financing. Nevertheless, developing countries have - if at all possible- an even more pressing responsibility. Without their determination to fully realize all what is expected from them, starting from the adoption of national water policies, the prioritization of supply and sanitation sustainable cost recovery practices, promotion of sound governance, at national and local level, proper decentralization and effective participation of the users, particularly women, to the decision-making process, it is crystal clear that the MDGs will not be reached. Those at the contrary which could be exemplary in their progress in all these fields would have in their hands the keys of the virtuous circle which could lead to outstanding success, providing furthermore a convincing example to countries which could have been prevented to take an early start.

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Mr President, it is more than time to conclude. It has been the task of the Panel to concentrate the minds of the key players on the basic financial issues and on the best way of solving them. The next step is about more than global strategy and money. It is about commitment and determination ; but when so much is at stake, and when the world can rely on solid multilateral institutions to take the lead, to innovate, to create the proper instruments and to actively catalyze reforms, one can keep the hope that these major undertakings of the world community have reasonable chances to be fulfilled. Thank you very much.