From “Financing water for all” to “Financing all of water”

IWRM and Finance Session

Manila, May 2006

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What We Have To Finance

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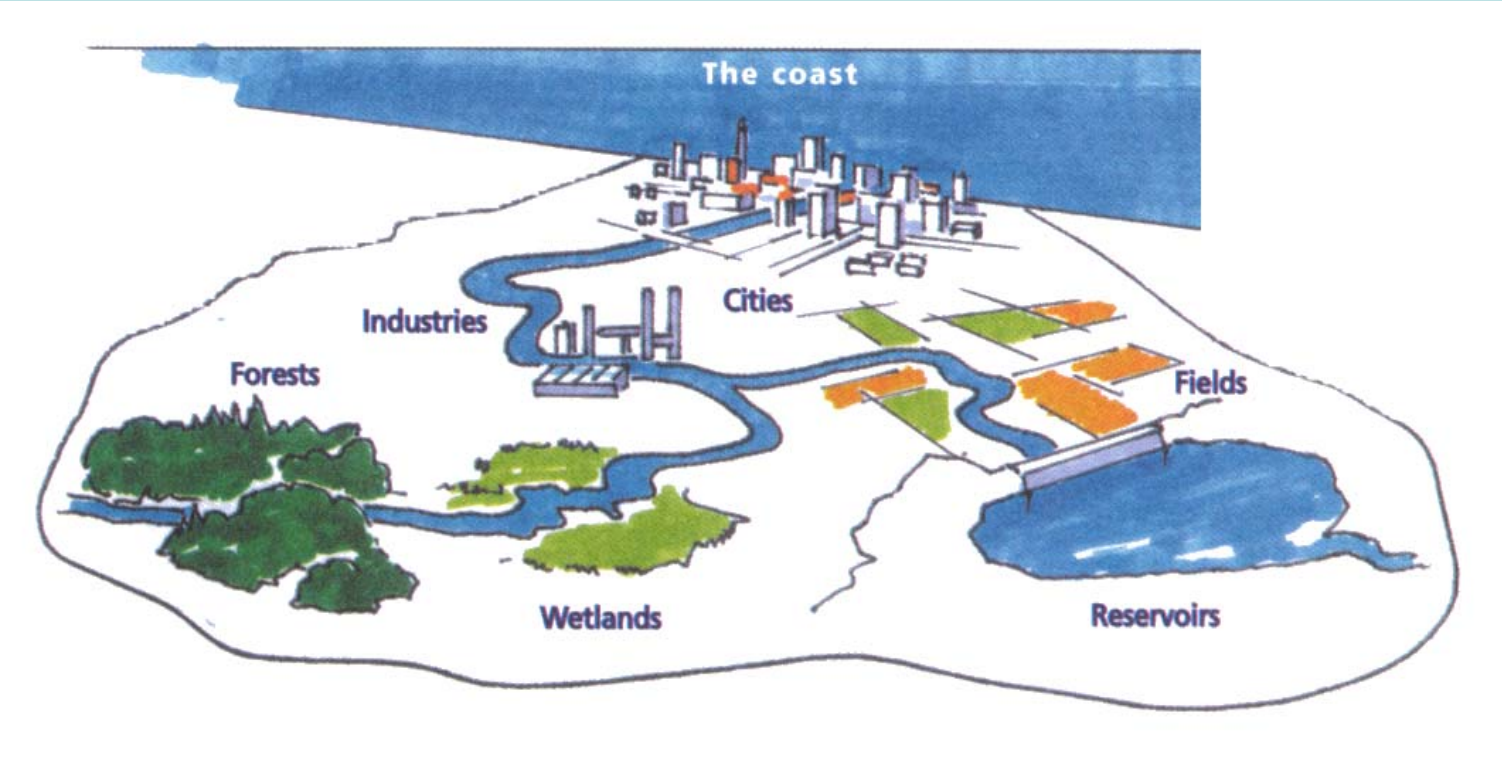

Repairing, Restoring, Protecting

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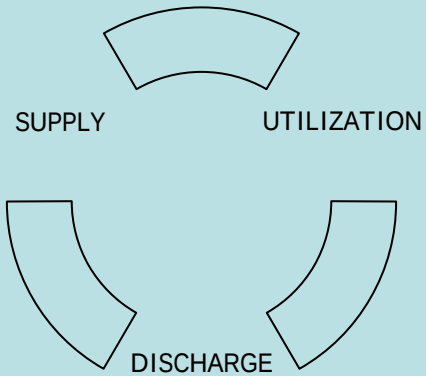
The Reuse-return-recycle



Integrate These & Finance Them.

- Water resource development & management
- Supply, treatment, transport & storage
- Environmental management & conservation
- Research, administration & policy development
- River management, navigation & flood control &
- Waste assimilation
- Hydropower & agricultural irrigation
- Industrial, commercial & touristic water use
- Municipal & household water use & sanitation
- Wastewater collection & treatment, and sludge disposal

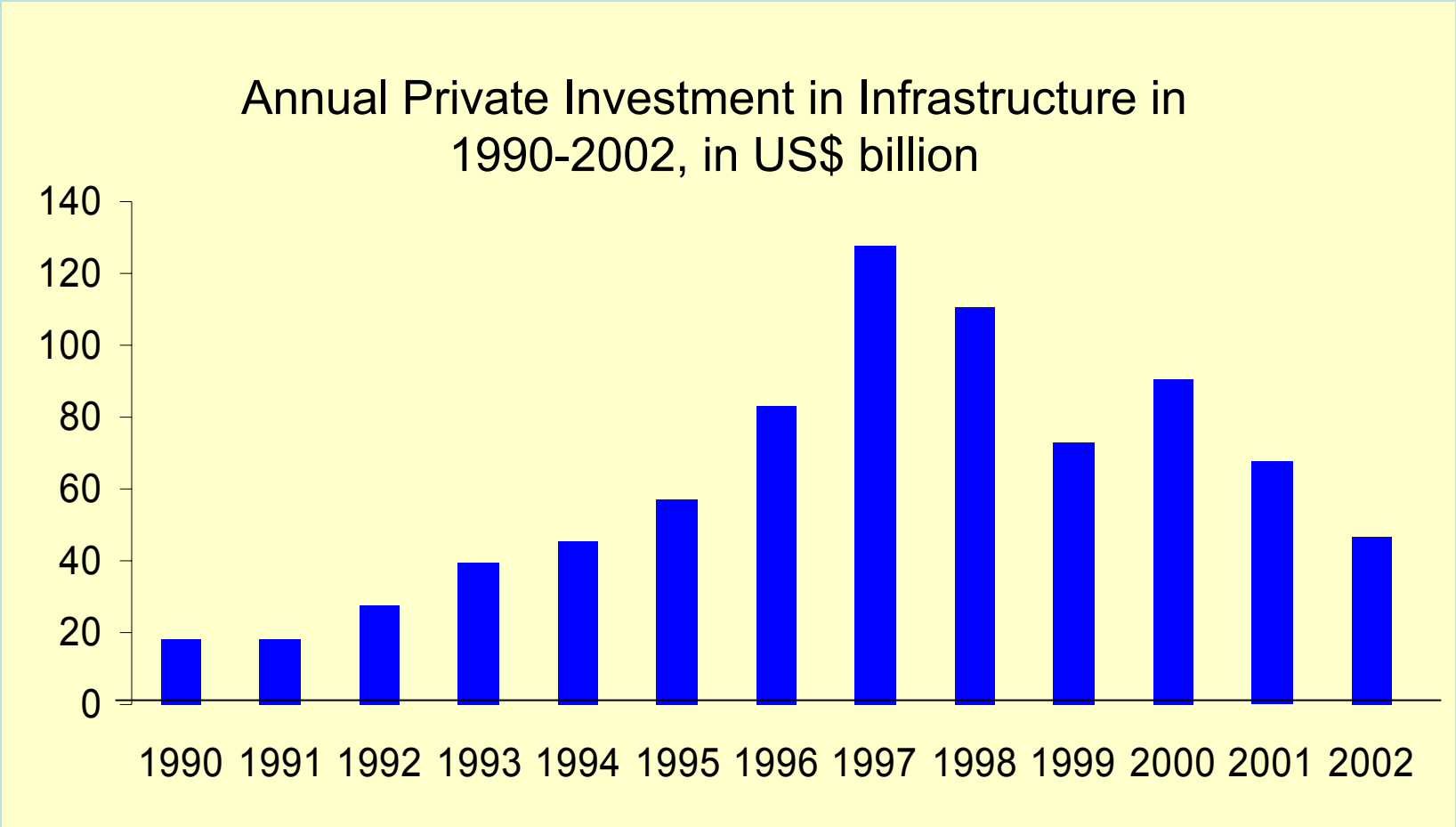
It Takes Money

	Today	2000-2025, p.a.
• Drinking water	13b U$A	13+.
• Sanitation	1	17.
• Wastewater	14	70.
• Industry	7	30.
• Agriculture	32.5	40.
• Environment	7.5	10.
• **Total**	**75**	**180.**

Financing Principles

- Water infrastructure – and costs of delivering water – irrigation, or drinking water - is ultimately paid for by one or more of three parties:
  - Water users, through their own outlays or through water bills paid to official water service providers;
  - Taxpayers, though various local or national fiscal flows; or.
  - For some countries - foreign aid, including private voluntary contributions. (Not much 3.5b/68b).

Collapse Of Private Flows To Infrastructure



Risks Faced By Capital

- Currency risk
  dollar debt and local currency earnings
  regulatory risk
  regulatory framework not implemented
  payment/performance risk
  government fails to pay amounts due
  sub-sovereign risk
  "affordability risk"
  private operators and consumers will not do it all – role of public investments and subsidies

International & Local Capital Flows

- International financial flows of all kinds into water have declined since early 1990s.
  - Some recent turnaround in national allocations.
  - Some increase in PRSP.
- Foreign exchange risk a major deterrent.
- Now emphasis on local capital sources.
  - Good response from IBRD, regional banks.

Water Resource *Management*: Most roles are PUBLIC – uniquely

- Managing public debate on issues.
- Establishing water law.
- Setting regulatory framework.
- Allocating water.
- Managing inspection functions.
- Ensuring data collection, retention.
- Managing communication on water issues.
- Ensuring subsidy for poorest population.

- TAX base financing or allocation from system revenue.

So…..

- How does improved water resource management help?

IWRM –10 Basic Elements

- High level political support secured.
- Regular processes bring together key shareholders from different sectors -.
- Work focussed on major water problems and challenges.
- Stakeholders kept informed; participation in the process: measures taken re women and poor.
- Inventory of capacity-building needs & institutional capacity.
- Baseline assessment of physical water resources, by basin if possible.

IWRM 10 Basics….

- Agreement on dissemination of useable information.
- Financing secured for infrastructure investments, capacity building, institution building.
  - Funding sources identified.
  - Agreement exists re operational financing, whether via taxation or clients.
- Links- PRSP, NSDP, Biodiversity, transboundary.
- Agreement on monitoring and evaluation system.

Advantages Of An Integrated Approach To Financial Management

- Supports sustainable infrastructure development and service provision.
- Facilitates better decision making.
- Levers additional investment through better governance and capacity (camdessus/gurria/hashimoto).
- Ensures better returns to investment.
- Avoids poor investments and expensive mistakes –.
  - Reduces risk and negative or inintended consequences.
- Helps society as a whole to solve problems (not just government).
- Helps to allocate water strategically.

Agriculture

- Take broad view of this sector
  - Value of water adds to property value
- Declining investment in new schemes
- Modernisation, rehabilitation in future
- Cost recovery on public schemes difficult
- High level of private finance already

Camdessus, Gurria, Hashimoto Task Forces: **Investment & Governance Reform: Hand In Hand**

- Start with Capability of Providers.
- Work on management.
- Ensure the most cost-effective use of resources.
- Resources to highest priority investment needs.

And…..

- Increase resource mobilization.

  from all sources.

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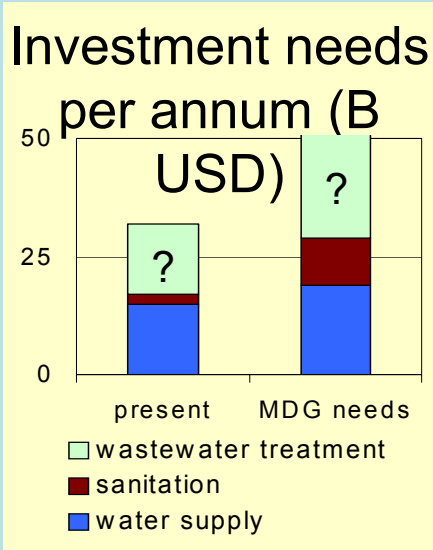

What Needs To Happen.

- The water sector urgently needs reform to make it a more credible channel for more funding, and to generate more funds itself.
    - Improved cost recovery is essential.
- All existing sources of finance for investment must expand.
  - Domestic governments (by far the largest source at present),
  - Official development assistance (oda),
  - Lending from multilateral financing institutions (MFIs).
  - Commercial loans, private equity,
  - Voluntary contributions, etc.
- Means budget priority, means PRSPs, means top of loan requests.
- Public subsidy will continue to be needed, though on a more predictable and transparent basis.
- So….
  - How do we make this happen?
  - This is the task for today.