

Financing water and sanitation: Realistic strategies for developing and OECD countries

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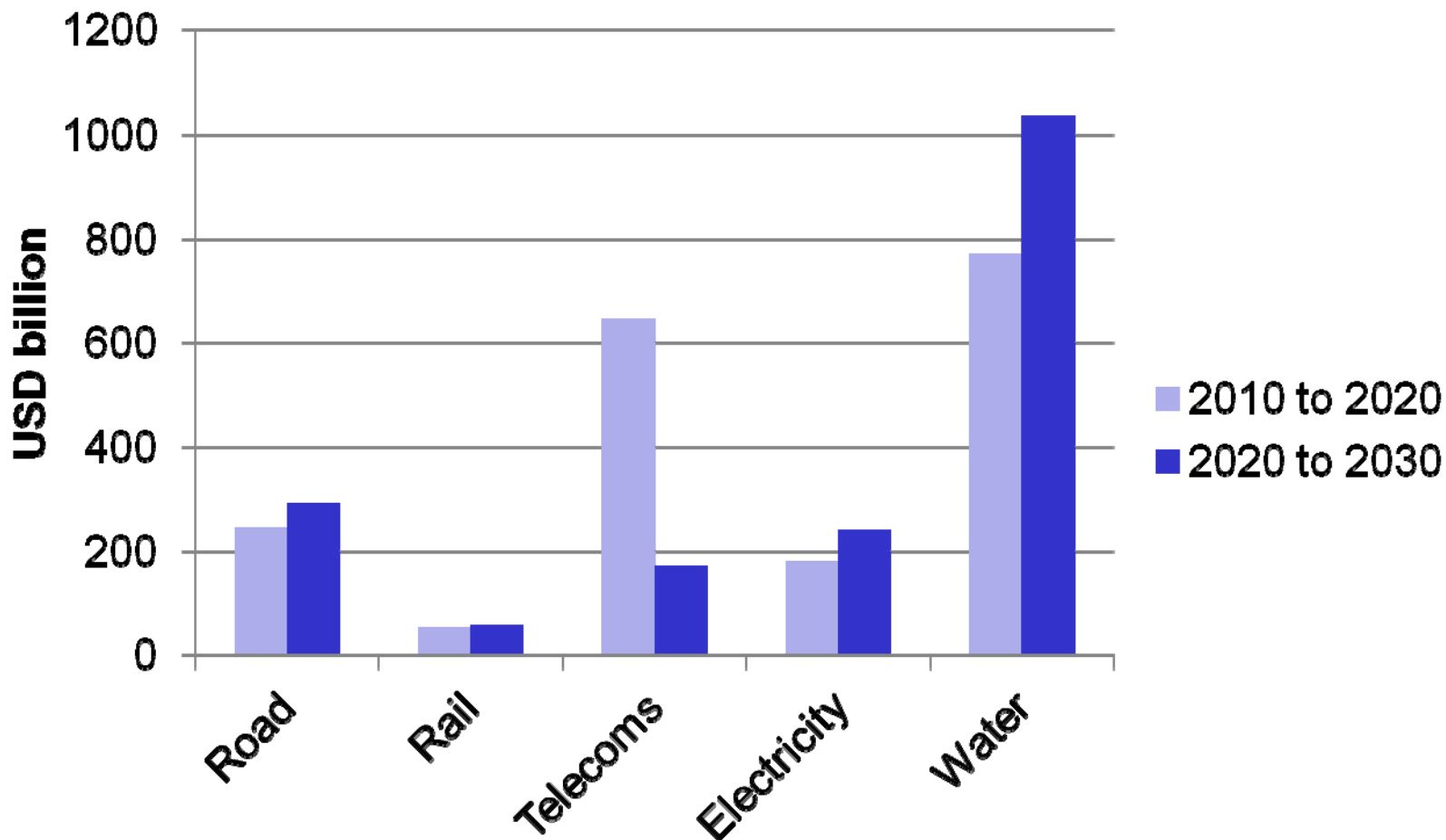


Financing WSS – The challenge

- **Demand for financing in the WSS sector is considerable**
- **In developing countries: USD 72 bn per year to achieve the MDG targets according to recent WHO figures**
- **In the OECD and BRICs USD 800-1000 bn per year up to 2030**
- **But current spending is falling short of these levels – there is a large financing gap**
- **This results in systems being insufficiently maintained, services deteriorating, and inability to extend services to those without access**



Annual infrastructure investments to 2030



Estimated average annual world infrastructure expenditure (additions and renewals). Source OECD

Closing the gap – Addressing costs

- **Closing the gap requires both increased supply, but also efforts on the demand side**
- **There are possibilities to improve efficiency of WSS systems (ie leakage, energy efficiency)**
- **Opportunities to reduce costs through better planning and low-cost technologies**
- **In the last instance reconsider objectives for coverage and service levels if they are unrealistic**

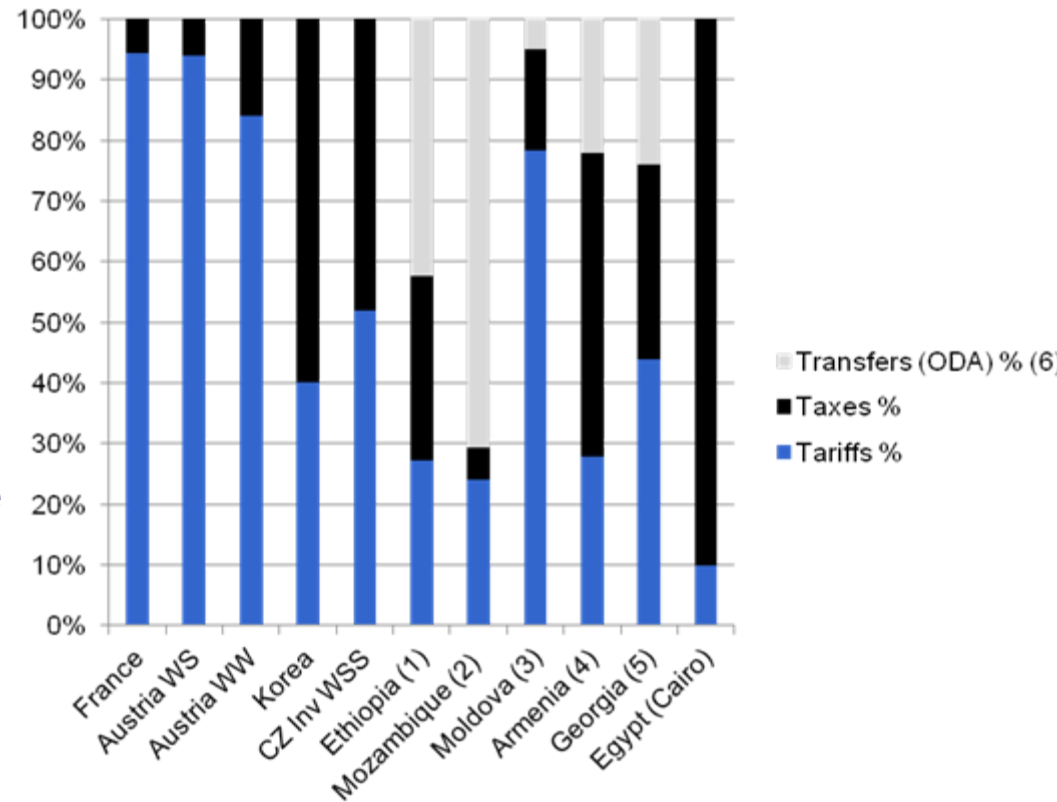
Closing the Gap - The ultimate sources of revenue

- There are only three ultimate sources of revenue that can help to close the financing gap, the 3Ts:

- Tariffs
- Taxes, and
- Transfers, ie ODA

- Loans and bonds will need to be paid back and mainly serve to “bridge the gap”, by helping to cope with large up-front investment costs

Figure 1: Shares of Tariffs, taxes and transfers (ODA) in WSS finance in various countries



Source: OECD



Tariffs

- **Usually user charges are the most important and sustainable source of funding for WSS**
- **In many countries there is room to increase cash flow from this source (by improving collection rates and tariff rates)**
- **But in some affordability concerns are seriously constraining this possibility**
- **Key issues are how to manage tariff increases, affordability and willingness-to-pay, ie how to ensure that tariff reforms are socially and politically acceptable and that the poor are not excluded from access to water**



Message for Ministers of Finance:

Given constraints in household affordability and public goods aspects of WWS some countries will need to provide significant support for water and sanitation through public budgets

Example: Countries such as Armenia, Moldova and Georgia need to spend 2-5% of public budget expenditure on WSS to achieve financial sustainability and the MDGs

Message for Ministers of Water:

In order to get more funds from public budgets, the water and sanitation sector needs to be more efficient, reduce corruption, plan better, and establish better linkages to budget processes

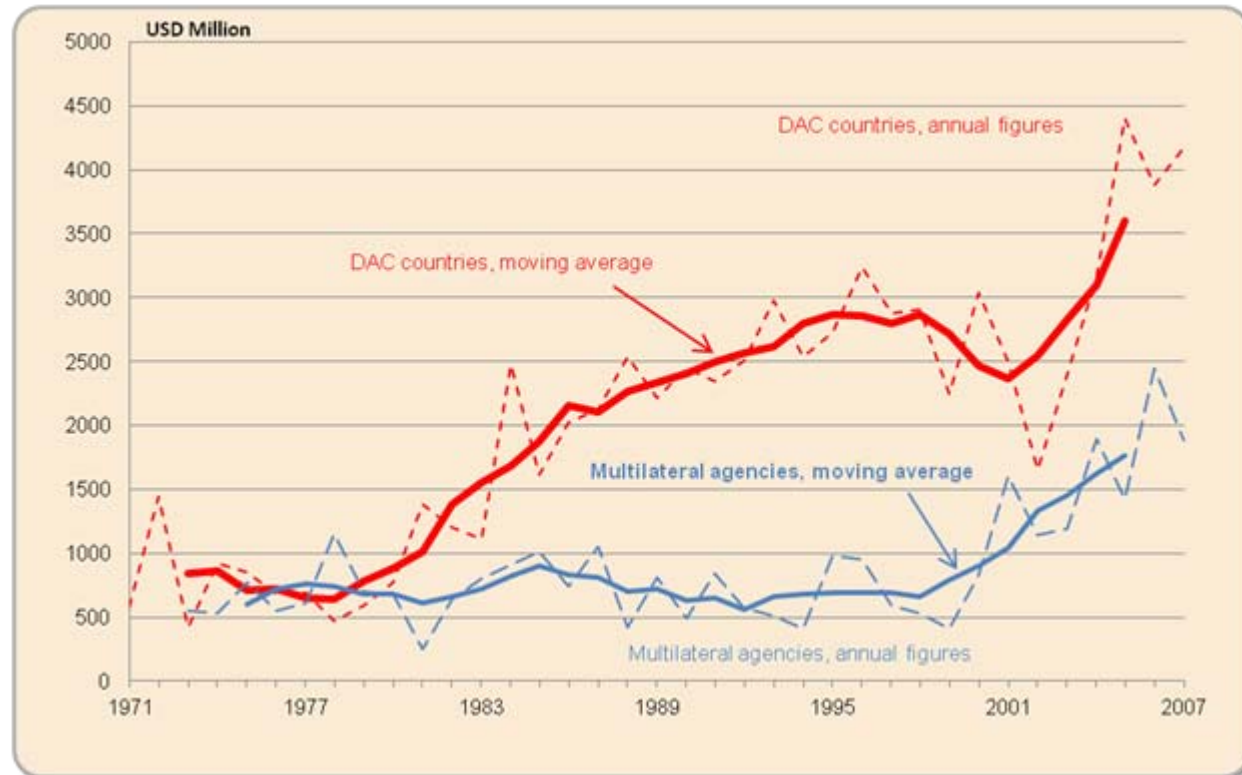


Transfers

- **ODA can only provide a limited part of funding needs**
- **But has important catalytic effects**
- **Needs to be spent strategically**
- **Key issue: what should ODA be used for?**

Chart 1. Trends in aid to water supply and sanitation

1971-2007, commitments, 5-year moving averages and annual figures, constant 2006 prices



Source: OECD

Strategic financial planning can help, but what is it?

- **A multi-stakeholder policy dialogue process that attempts to develop a national consensus on what water supply and sanitation services the country can or should afford in the next 20-30 years and how will it pay for them.**
- **A methodology based on solid financial modelling that structures the process of consensus-building in the following steps**
 - **(i) assessment of current financing gap,**
 - **(ii) discussion of policy options that could help to close the financing gap,**
 - **(iii) development of alternative scenarios to improve water services,**
 - **(iv) identification of most appropriate scenario and associated policy mix.**
 - **(v) development of investment/action plan and link into budget process**



How can it help?

- **By improving coordination of sector actors, by providing a framework to achieve common understanding of status and future direction**
- **By enhancing allocation of scarce resources, ensuring that they go where they can achieve the biggest impact**
- **By improving the implementation of sector plans, by making them more realistic**
- **By increasing financial resources for the sector, by identifying opportunities to increase revenues from users, and by making the sector a credible partner for the MoFinance, donors and private investors**



Making SFP work: lessons

- **National ownership; needs a champion & involvement at suitably high level; MOF needs to be involved; Ensure that the voice of the poor is being heard and factored into SFPs**
- **Need to link it to existing processes; Process: link SFP to regular budgetary processes, esp. MTEF; align with sector institutions**
- **Such processes require time and patience will be rewarded, these processes evolve over time**
- **Analytical base: methodology must be credible, with robust data, but intelligible to parties involved (eg a financial model)**
- **Donors as midwives, but should not undermine « ownership », ie supporting analysis, capacity development and aligning their aid with strategic financial plans**



Some case examples

Results from NPD in Moldova

- **Dialogue lead by Minister for Local Public Administration**
- **Conducted over a period of 18 months**
- **Provided input into National Water Strategy, initiated by President of Republic**
- **Helped inject realism in those plans**
- **Demand for follow-up to translate financing strategy into action/investment plan and to link strategy into MTEF**

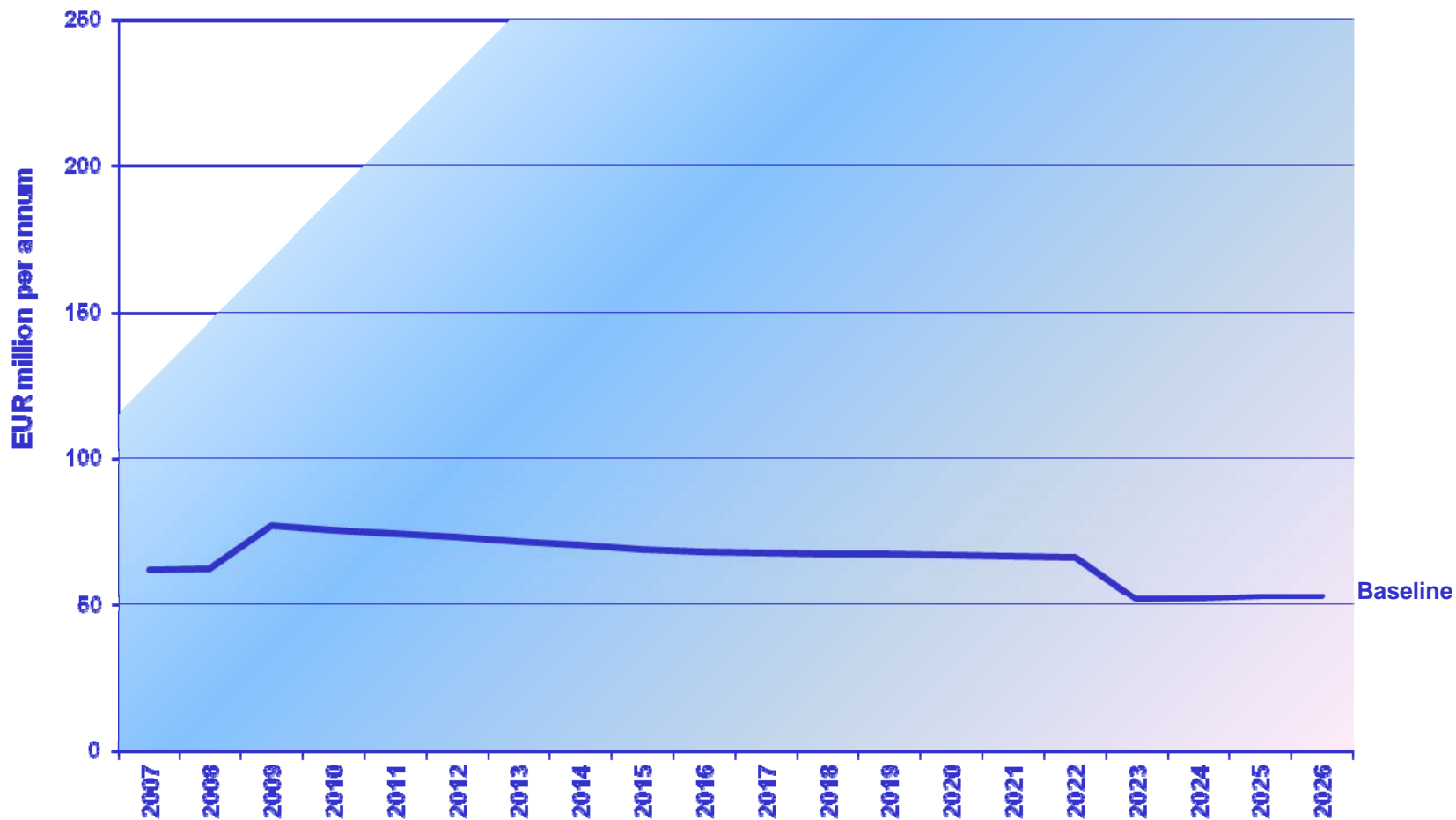


Development strategies Moldova

Strategy	Objectives	Main Sectors		Main Beneficiaries		Cost over 20 years
		WS	WW	Rural	Urban	EUR
1) Baseline	Halt deterioration of existing infrastructure by improved O&M and reinvestment in old infrastructure	●	●		●	1,320 million
2) (1) + MDGs	Halve the proportion of population with no access to improved water and sanitation	●	●	●		1,820 million
3) (1) + EC Directives	Compliance with EC Water and Wastewater Directives		●		●	1,840 million
4) (1) + MDGs + critical WWTPs	As (2) (MDGs) plus providing wastewater treatment to critical towns discharging into international waters		●	●	●	1,910 million
5) (1) + MDGs + EC Directives	Combining both MDGs (mainly rural benefits) and EC Directives (mainly urban benefits)	●	●	●	●	2,340 million
6) Draft Government strategy	An estimate of total investment needs	●	●	●	●	3,240 million

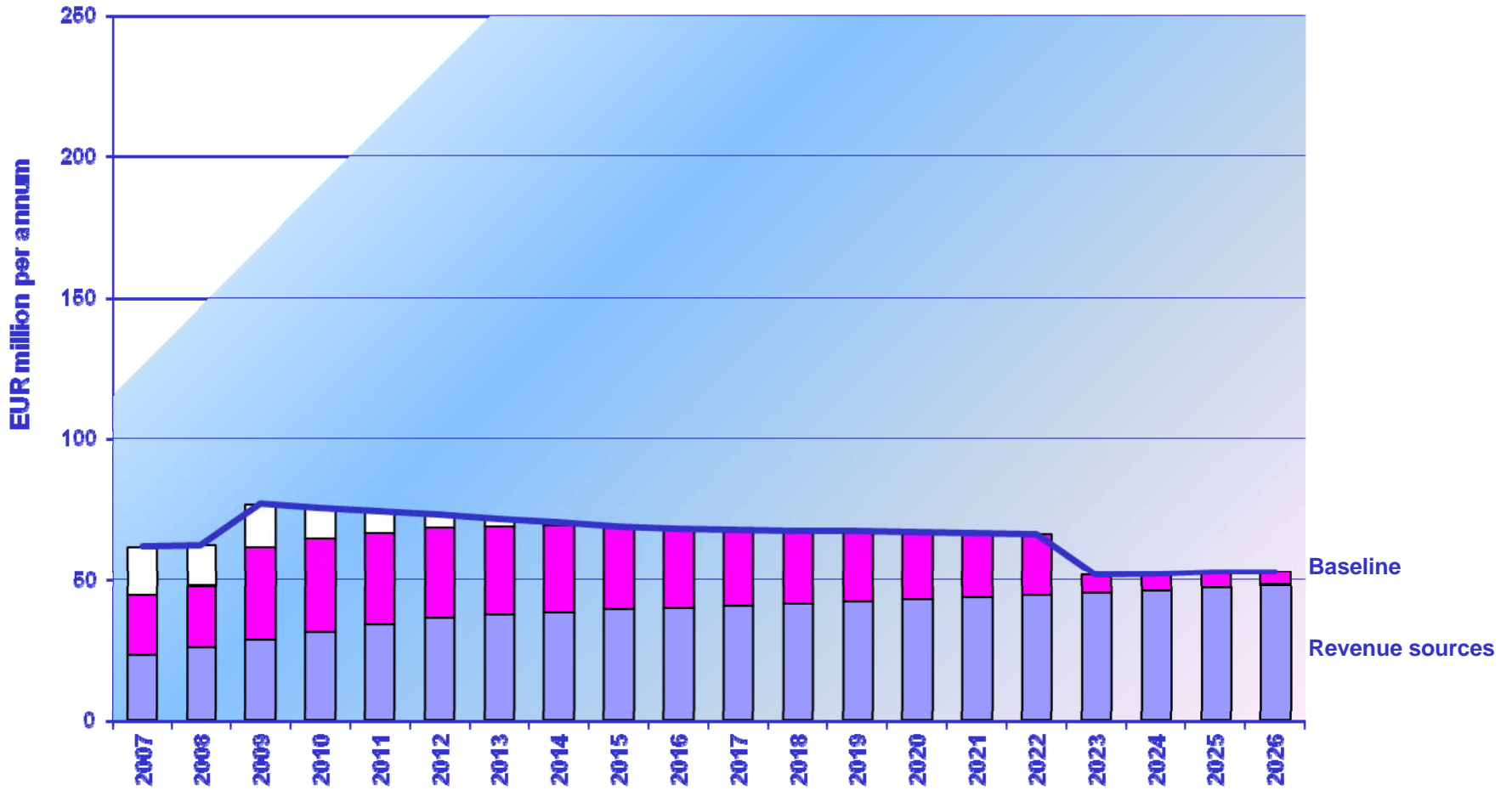


The case of Moldova



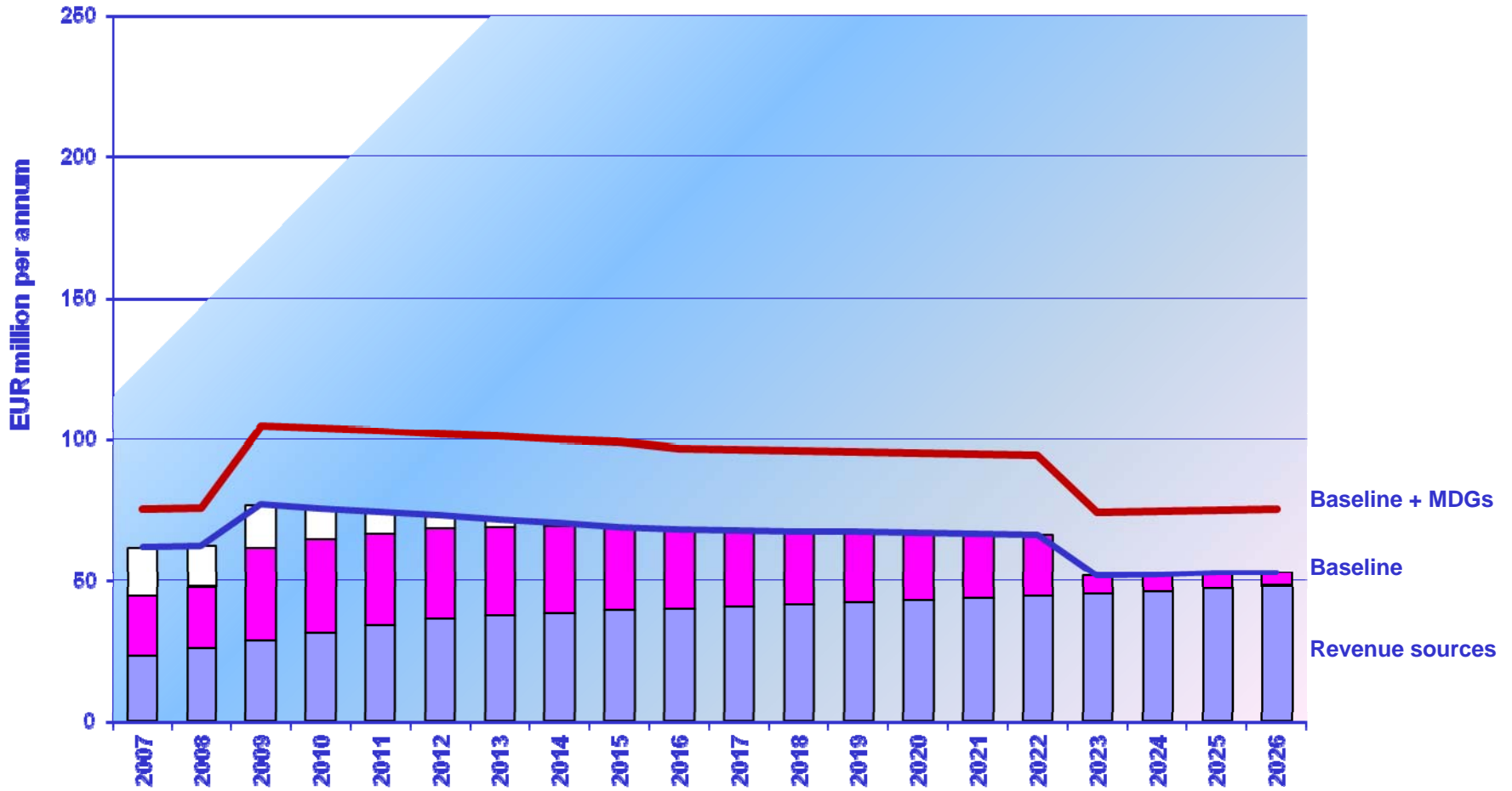


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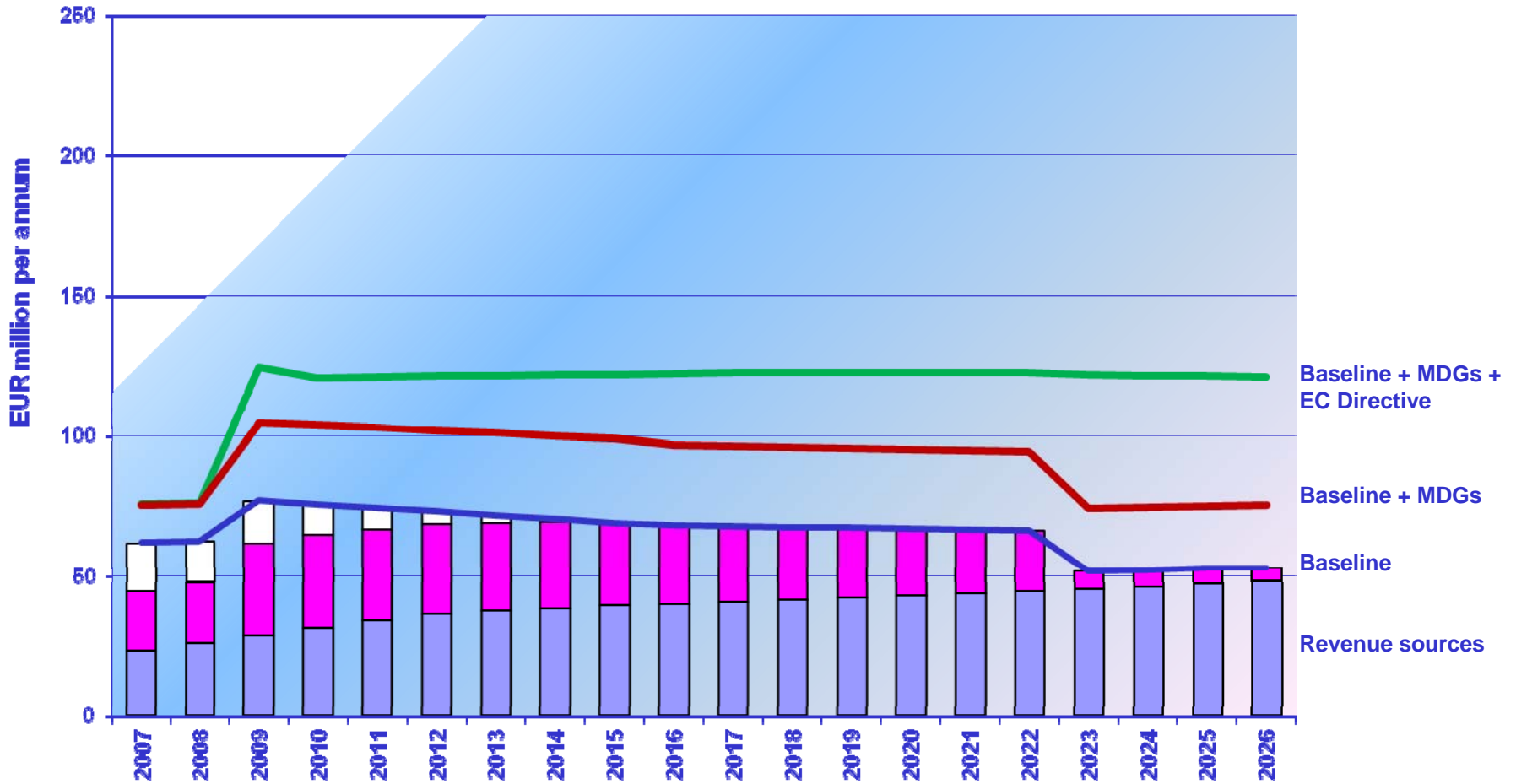


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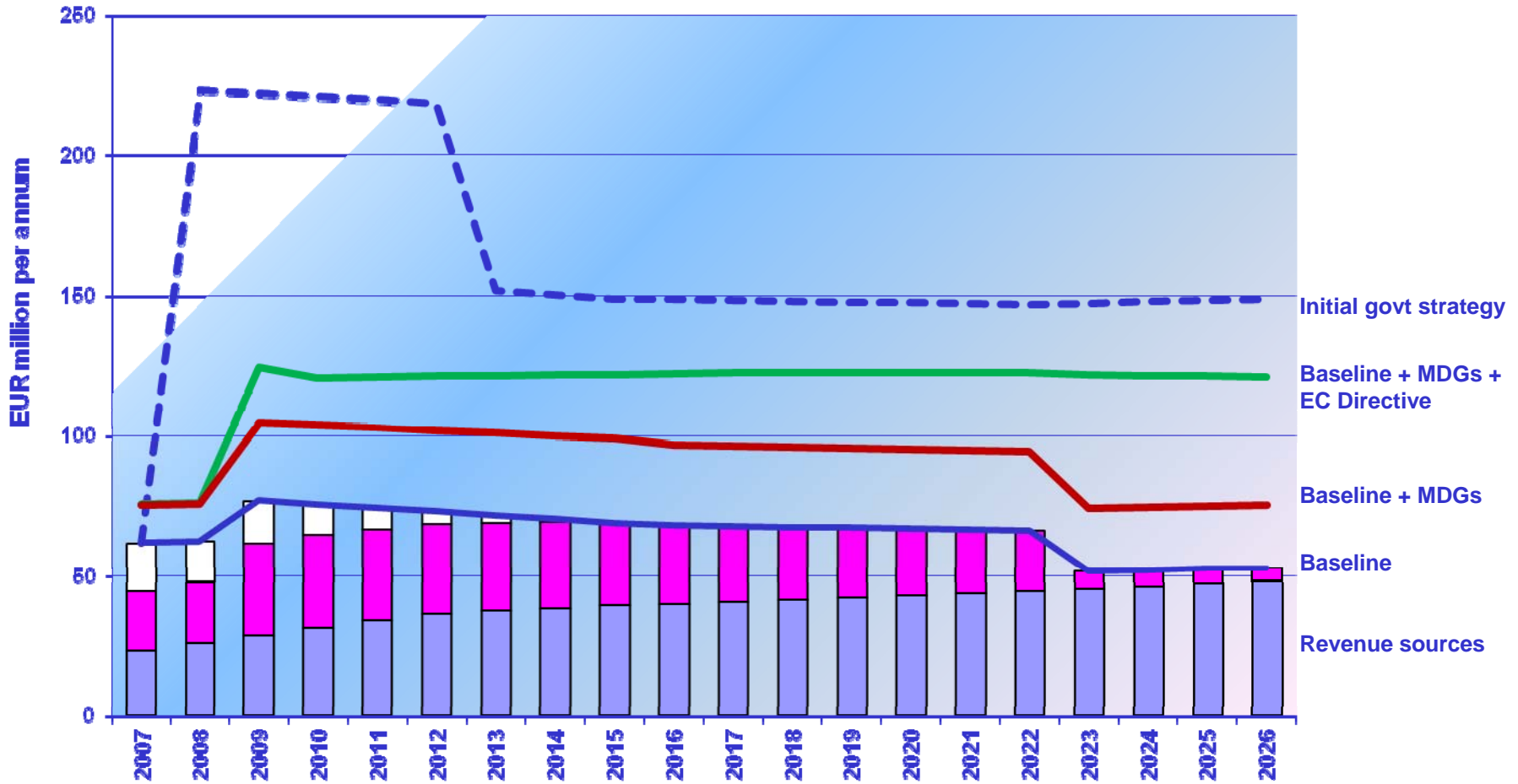


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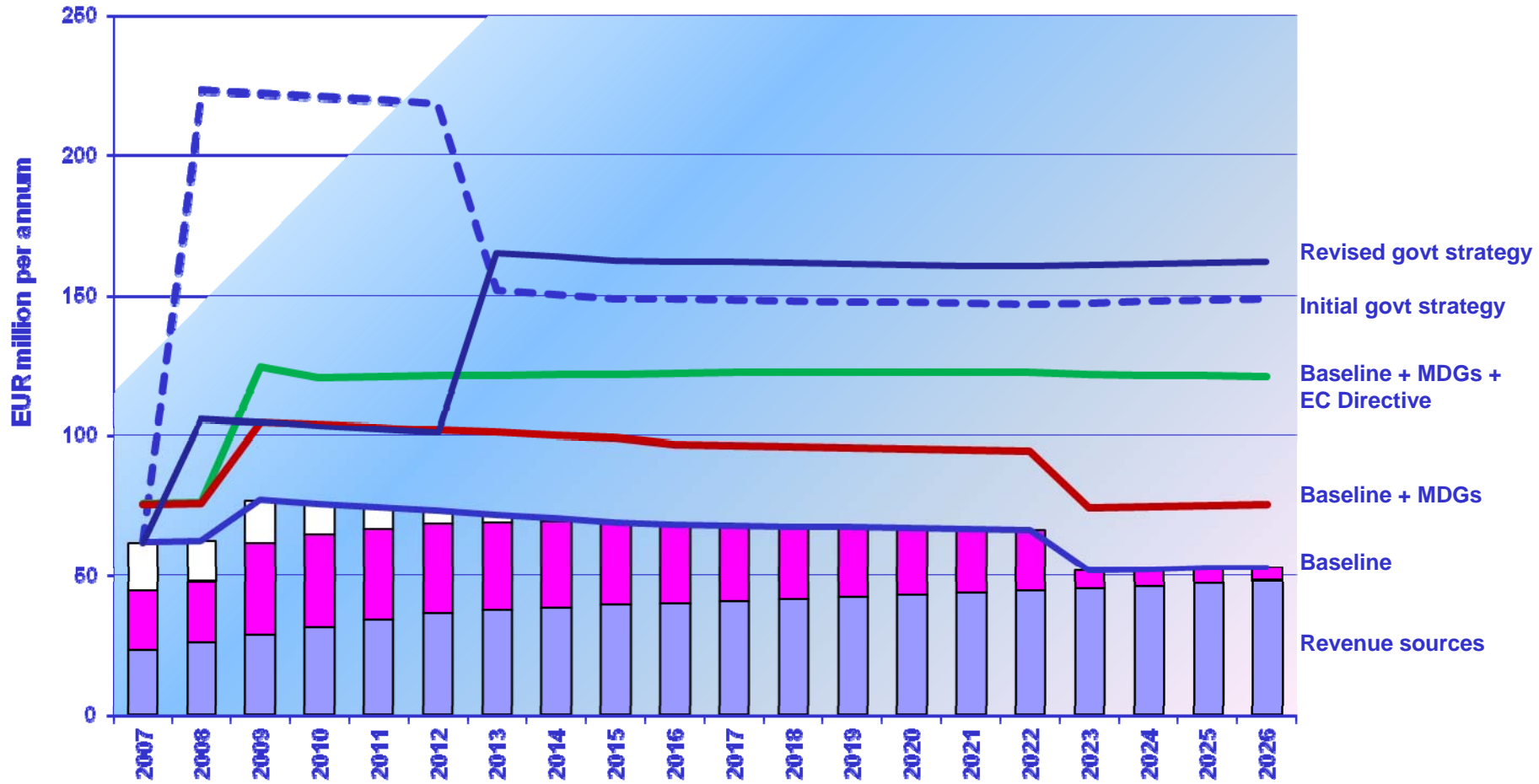


The case of Moldova





The case of Moldova





Financial consequences of development strategies

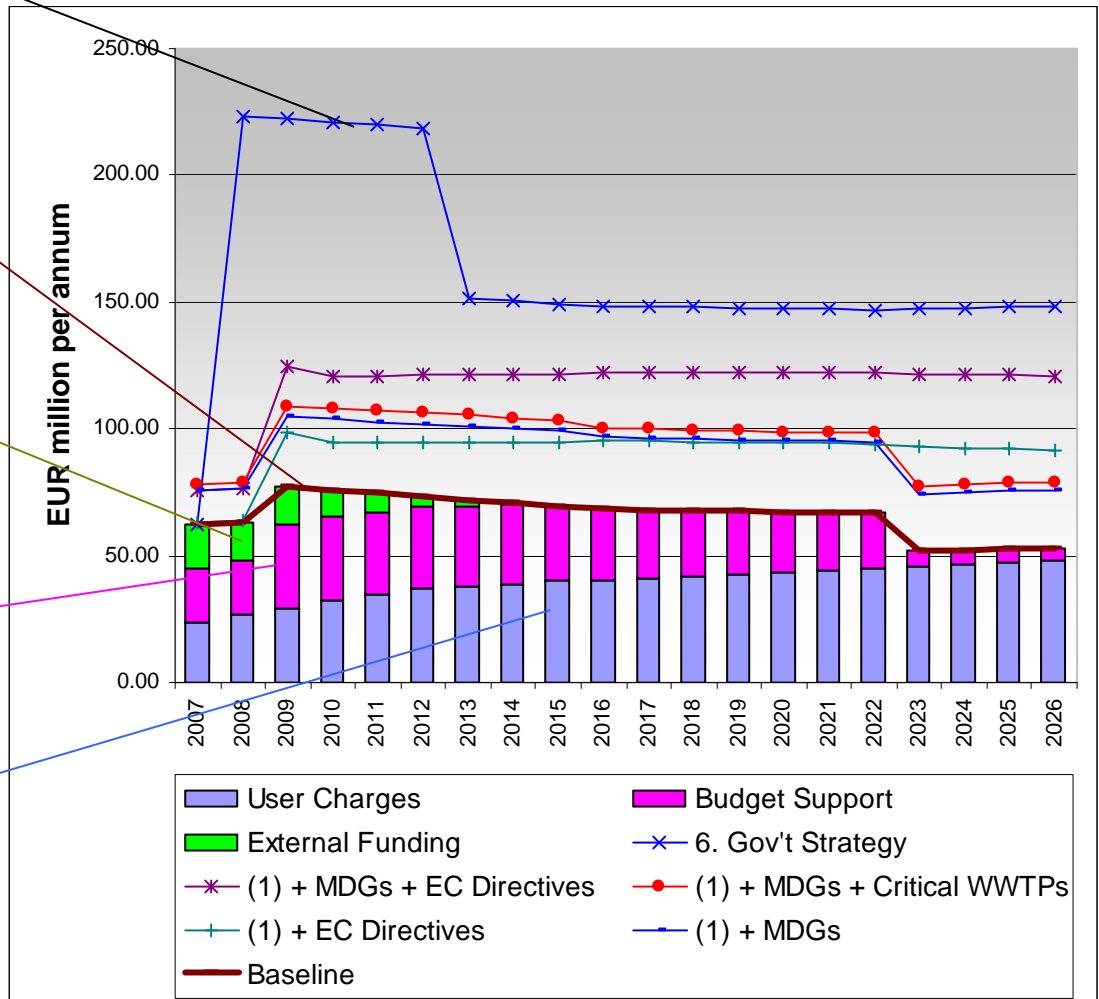
Higher cost strategies not realistic, at least in the near future

Baseline scenario

External support increased from EUR 5 million per year to 17 million per year

Government support increased from 0.5% to 2.3% of national budget

User charges increased to 5% of household income





Results from Armenia

- **Dialogue on financing rural water supply and sanitation lead by State Water Committee**
- **Focus on identification of realistic policy objectives for “minimal water supply standards” for rural populations**
- **A law on “minimum water supply standards” is in process of adoption**

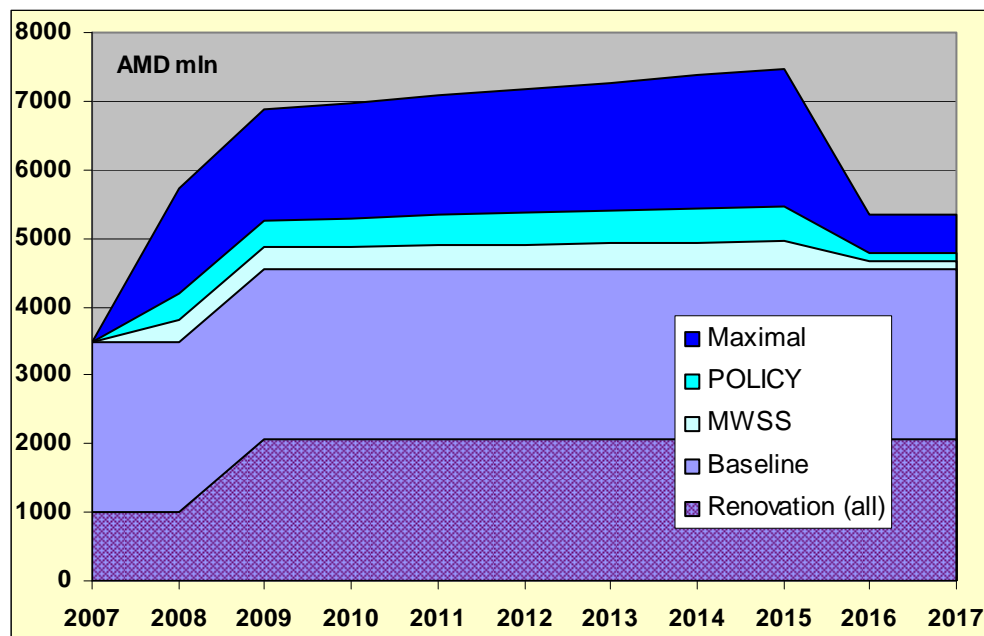


Scenarios simulated

- **Minimal Water Supply Standards for rural WSS (*more ambitious than UN MDGs*):**
 - Minimal 50 lcd for all rural inhabitants
 - Maximal 100 meter from home
 - Regular supply (for piped water- min. 8 hrs/day)
 - Safe (chlorination, safety checks)
- **POLICY: Poverty Reduction Strategy Paper targets & MWSS**
 - MWSS *and* on average 75% on plot supply (100 lcd)
- **MAXIMAL**
 - 95% house connections (in-house taps), 150 lcd

POLICY scenarios, expenditures

- Additional annual expenditures mostly linked to renovation (AMD 2 billion/y)
- Policy targets related expenditures -relatively small share in total (7-17%)



- No big difference in expenditures between options (Baseline, MWSS and POLICY)



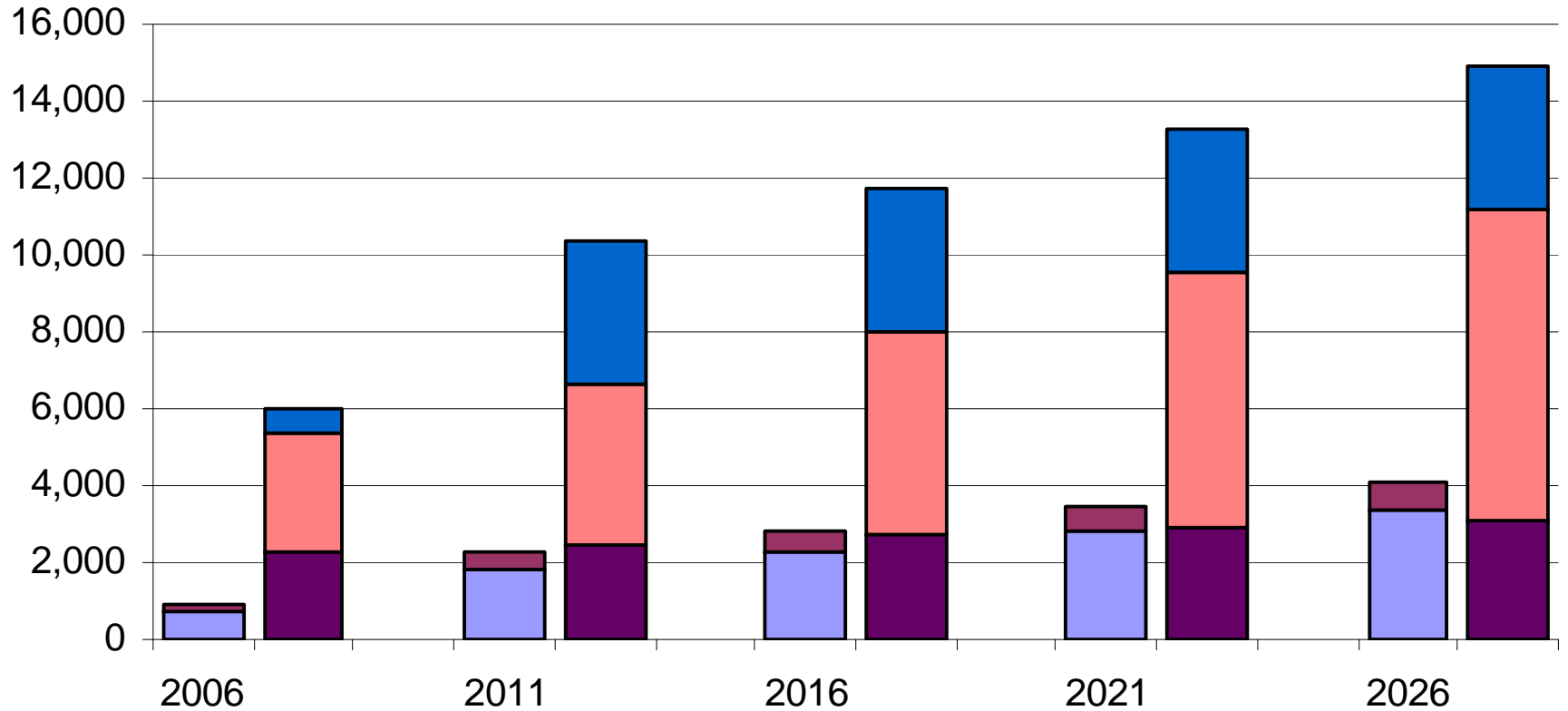
Results from Egypt

- **Dialogue lead by Holding Company for Water and Wastewater**
- **Conducted over a period of 18 months in framework of Med-EUWI**
- **Provides input to Law Committee bringing together key Ministries in water**
- **Too early to assess impacts on reform process**



Financing gap, overview, water supply, 2006-2026 (selected years)

1,000,000 EGP



Public budget User charges O&M expenditure
Re-investment expenditures New invest expenditure Renovation

Cumulative impact of measures, 2006-2026

	Baseline Scenario	Increase connection rate and reduce discharge of untreated wastewater	Reduce domestic water consumption	Reduce water loss	Increase pumping efficiency	Increase wastewater treatment level
Expenditure needs, total	42,317	44,750	38,034	36,596	36,348	36,406
By:						
WS	33,869	35,712	29,890	28,452	28,218	28,218
WW	8,448	9,039	8,144	8,144	8,130	8,188
By:						
Current	10,130	10,368	9,260	8,893	8,599	8,628
Capital	32,187	34,382	28,774	27,703	27,749	27,778
Measures, costs²	0	500	60	80
Measures, savings³	...	-2,433	4,283	1,438	248	-58



WSS expenditures as % of household expenditure, Option 1 "User charges cover all"

Years	Low income ²	Middle income ²	High income ²
2010-11	0.7 %	0.4 %	0.2 %
2012-13	1.1 %	0.7 %	0.3 %
2014-15	1.9 %	1.2 %	0.5 %
2016-17	3.1 %	2.0 %	0.8 %
2018-2026	5.1 %	3.4 %	1.3 %



Thank You

Environment Directorate



Visit our website:

www.oecd.org/water

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