

**Session 5.1.1:
Financial Sustainability: Importance, progress and emerging issues**

Time: Wednesday 18 march 2009, 8h30-10h30
Location: F3 Feshane Haliç Hall
Organiser : AquaFed
Contact: Thomas Van Waeyenberge, +32 2 234 78 08

Broader Issue & Context

- *Importance to monitor the follow-up post Camdessus Report & Gurria Panel, in particular on financial needs of water utilities and their access to local capital markets, . This session will set the stage for the whole topic and is indeed of major importance for the whole theme.*
- *Financial issues are particularly relevant for the water sector because it is characterised by high capital-intensity and long repayment periods for investments. Without financial sustainability the sector will not be able to deliver on its important goals, including contribution to economic growth. There is a need to know what has happened, what progress has been made on the topic of financing, including the effect of the Camdessus report, Gurria Task Force, 4th Forum, MDG leverage, and assess the progress in implementing the recommendations of Camdessus report, Gurria Task Force, 4th Forum, and to what extent the MDG agenda has leveraged additional funds for the sector. Moreover, there are new issues on the financing water agenda, chiefly the issue of climate change adaptation.*
- *The Camdessus report has recommended targeting Sustainable Cost-Recovery of utility cost, i.e. mixing user payments that are organised to be affordable by each category of users and public subsidies that are predictable and certain enough to allow for the utility to borrow. Financial sustainability of a local water authority/utility results from sound economics based on Sustainable Cost-Recovery and from access to capital markets to fund necessary physical investments*
- *Financial sustainability of the water sector requires that in addition to the financial sustainability of each individual actor, the sector as a whole is able to mobilise the necessary funding to develop water infrastructure and services that are needed by population and economic development.*
- *The Gurria report has shown that ODA is essential but, even doubled, it cannot fund more than a small part of the needs. User payments and public budgets are the main ultimate funding sources.*

Topics covered in this session:

- Financial sustainability, finance demand-supply balance, main issues and progress since CAMDESSUS and GURRIA reports, blending loans and grants to reach the poor
- Understanding key concepts and financial flows in the WSS sector,
- New financial solutions.
- Progress of cost-recovery, strategic financial policies,

Key Questions in this session:

- What progress has been made since the CAMDESSUS and GURRIA reports in consideration with their recommendations? In particular regarding:
 - o National frameworks that enhance the financial capacity of local authorities/utilities
 - o Sustainable Cost-Recovery,
 - o facilitating access of water utilities to local capital markets,
 - o the financial demand-supply balance, i.e. the ability of banks to offer financial instruments that meet the financial needs of utilities?

- Use of ODA as a catalyst to attract non-ODA funds
- Which obstacles to financial progress have been encountered? Why no more results about risk instruments?
- What are the emerging issues to be addressed to ensure financial sustainability?
- What are the major initiatives that you see developing in the source and types of finance (or financial instruments) being used to enhance delivery in the urban water and sanitation sector?
- What considerations (including non-financial) do you see shaping the short and medium term debates around finance for urban water and sanitation delivery in developing countries?

Potential answers

Progress: sub-sovereign lending, state revolving funds, utilities having access to markets, sustainable cost-recovery. ODA is lagging, leverage effect not visible

Format / Session plan

15mn Setting the scene:

key financial flows, sustainability issues, Camdessus- Gurria reminder
Gerard Payen, Member of the UN SG's Advisory Board on Water, Chair of the finance Group

55mn Roundtable discussion.

Panellists provide key concrete examples of progress in financing the water sector that are positive responses to the Camdessus/Gurria "Financing water for All" reports (6mn each).

Then panellists provide their personal answers to the above questions (when asked by the moderator)

List of panellists

- *Jamal Saghir*, World Bank, Director Energy, Transport & Water –
Development of Guarantees / Sub-sovereign financing / Credit enhancement
- *Jeremiah Paul*, Government of the Philippines Department of Finance, Undersecretary
National Revolving Fund allowing tapping private finance and helping local utilities to borrow
- *Ek Sonn Chan*, Phnom Penh Water Supply Utility, General Director
A water utility getting access to financial market
- *Lorents Lorentsen*, OECD, Environment Directorate, Director
3Ts, Sustainable Cost-Recovery, Financial strategies
- *Amy Leung*, Asian Development Bank, Chair of Water Committee
New funding mechanisms in Asia
- *John Wasielewski*, USAID, Development Credit Authority
Revolving funds in India allow non-creditworthy local utilities to access to financial market

45mn Discussion between panellists and with the floor

5mn Conclusions - Retained answers

Background documents

Financing Water for All, Camdessus and al., 2003

http://www.financingwaterforall.org/fileadmin/wwc/Library/Publications_and_reports/CamdessusReport.pdf

Enhancing Access to Finance for local governments, Financing water for All, Gurria and al., 2006,

http://www.financingwaterforall.org/fileadmin/Financing_water_for_all/Reports/Financing_FinalText_Cover.pdf

Hashimoto Action Plan, UNSGAB, 2006, <http://www.unsgab.org/hap.htm>