

# Overcoming Governance Challenges to Financing the Water Sector

Lessons learnt from  
OECD policy dialogues on water

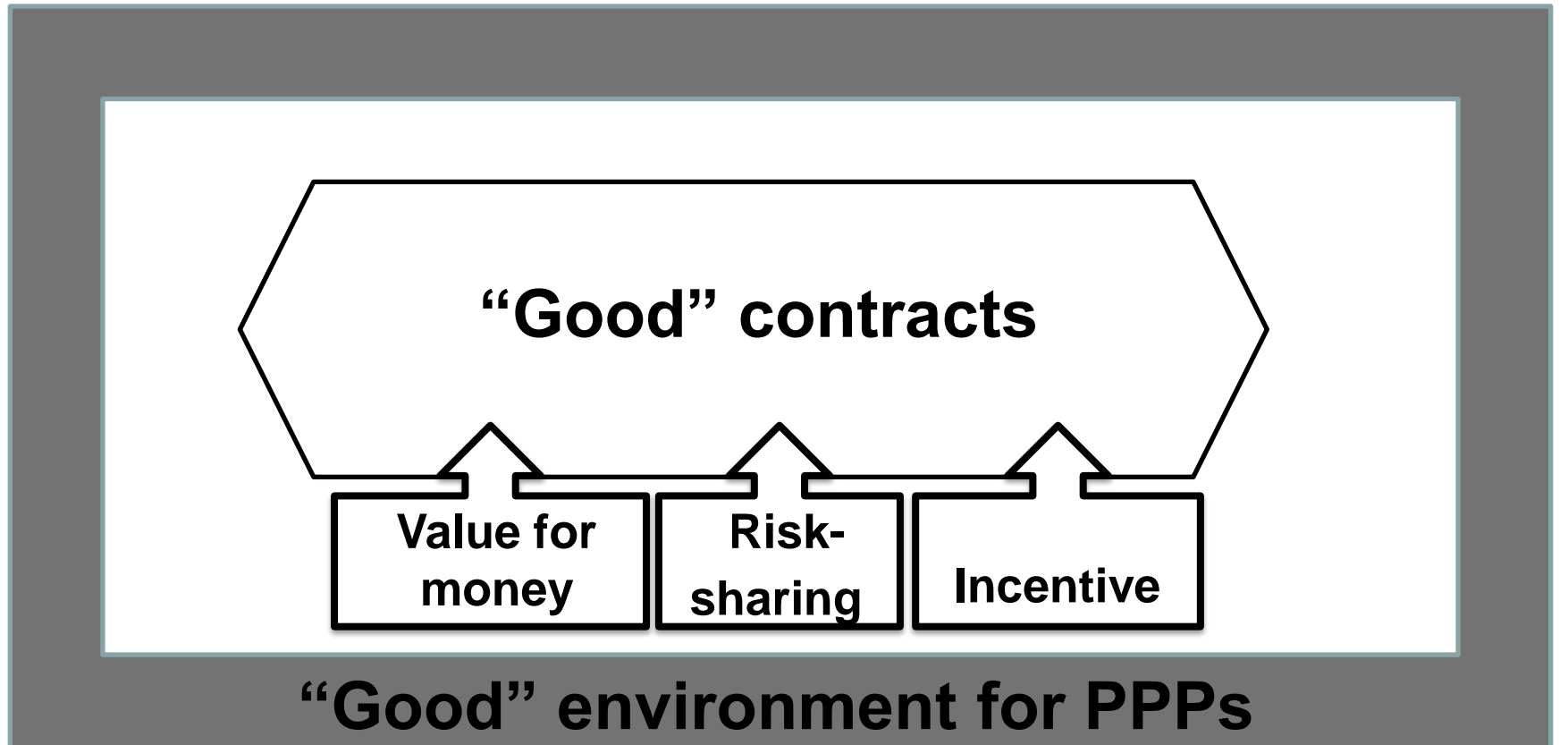
# Key facts

- Massive infrastructure investment needs coupled with budget constraints make PS involvement an attractive option for governments – OECD & non-OECD.
- Despite flow of funding, countries struggle to meet the financial requirements for water. Lack of basic elements of a sound governance framework impedes efficient use of funding & mobilisation of additional sources of finance.
- Increasing competition across countries and sectors to attract private investors.
- Increasing diversity of private actors and of risk-sharing arrangements from full private to full public ownership, depending on levels & nature of risks. The right risk-sharing is country and project specific.

# Lessons learnt, OECD water policy dialogues

- **The enabling environment:** a critical condition of success and one that is becoming even more crucial in current context of competition for financial resources
- **Building capacity at all levels of government:** acute need to bridge multi-level governance gaps & entrust reg. functions to competent, well-resourced authorities
- **Long term financial sustainability:** a particularly difficult equation to achieve in the water sector, and one associated with important regulatory risk
- **Developing the accountability mechanisms:** a revolution in government culture and practice towards performance and output based specifications with high benefits in the long term, but difficult in the short run

# Making private participation work



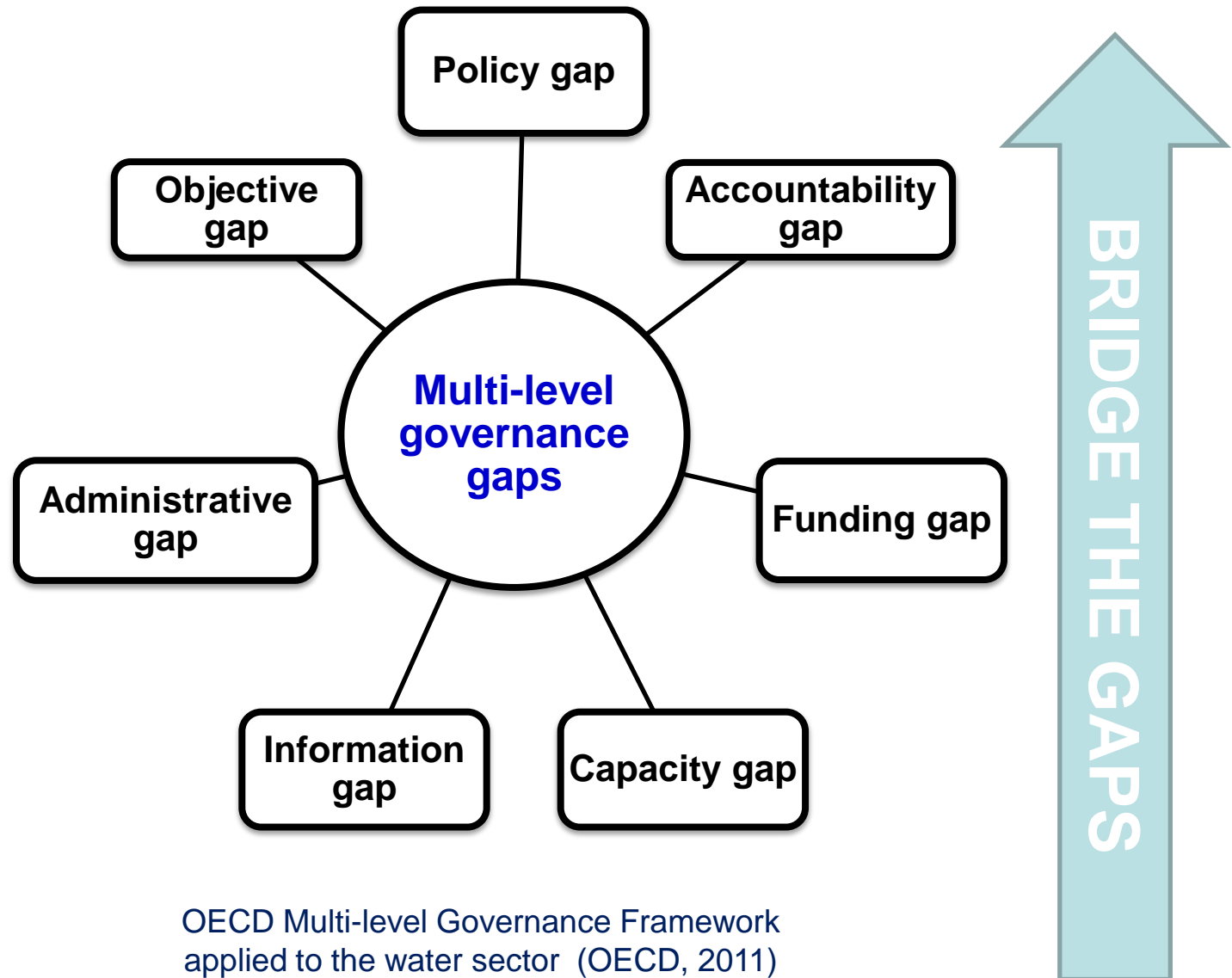
Macroeconomic  
stability

Competition

Institutional  
framework

Legal & regulatory  
framework

# A fragmented sector, with multiple stakeholders and major governance “gaps”



# Addressing governance gaps: OECD tools & method

- **OECD tools**

- OECD Checklist for Public Action in the Water Sector
- OECD Recommendation on Regulatory Policy and Governance
- OECD Multi-Level Governance Framework
- OECD Recommendation on Principles for Public Governance of PPP
- OECD Best Practices for Budget Transparency
- OECD (2010) Dedicated Public-Private Partnership Units: A Survey of Institutional and Governance Structures
- OECD (2008) PPP: In Pursuit of Risk Sharing and Value for Money Paris

- **OECD policy Committees, programmes & networks**

Horizontal Water Programme; Network of Economic Regulators; Water Governance Initiative; Network of Senior PPP Officials; Regulatory Policy Committee; MENA-OECD Governance Programme.

- **Water Policy Dialogues:** Russia, Egypt, Lebanon, Mexico

# Institutional framework under development

Pilot projects are important to develop better understanding and trust. Over the long run, the enabling (consistent institutional & regulatory) environment needs to be in place.

- **Egypt:** strong impetus towards the end of 2000. Scalability crucially hinged on the development of the enabling environment - PPP Law ratified by Parliament in June 2010; pending Water Law (defining the regulatory responsibilities).
- **Russia:** legislation in transition, PPP in stagnation - Amendments to the Concession Law (sector-specific provisions, asset registration & transition of old leases, competitive bidding); tariff regulation & technical regulations under development.
- **Lebanon:** legislative framework not in place yet, draft laws are under development or approval.
- **Mexico:** no federal framework for WSS, limited regulatory functions outside of contracts => establishment of economic regulator under consideration.

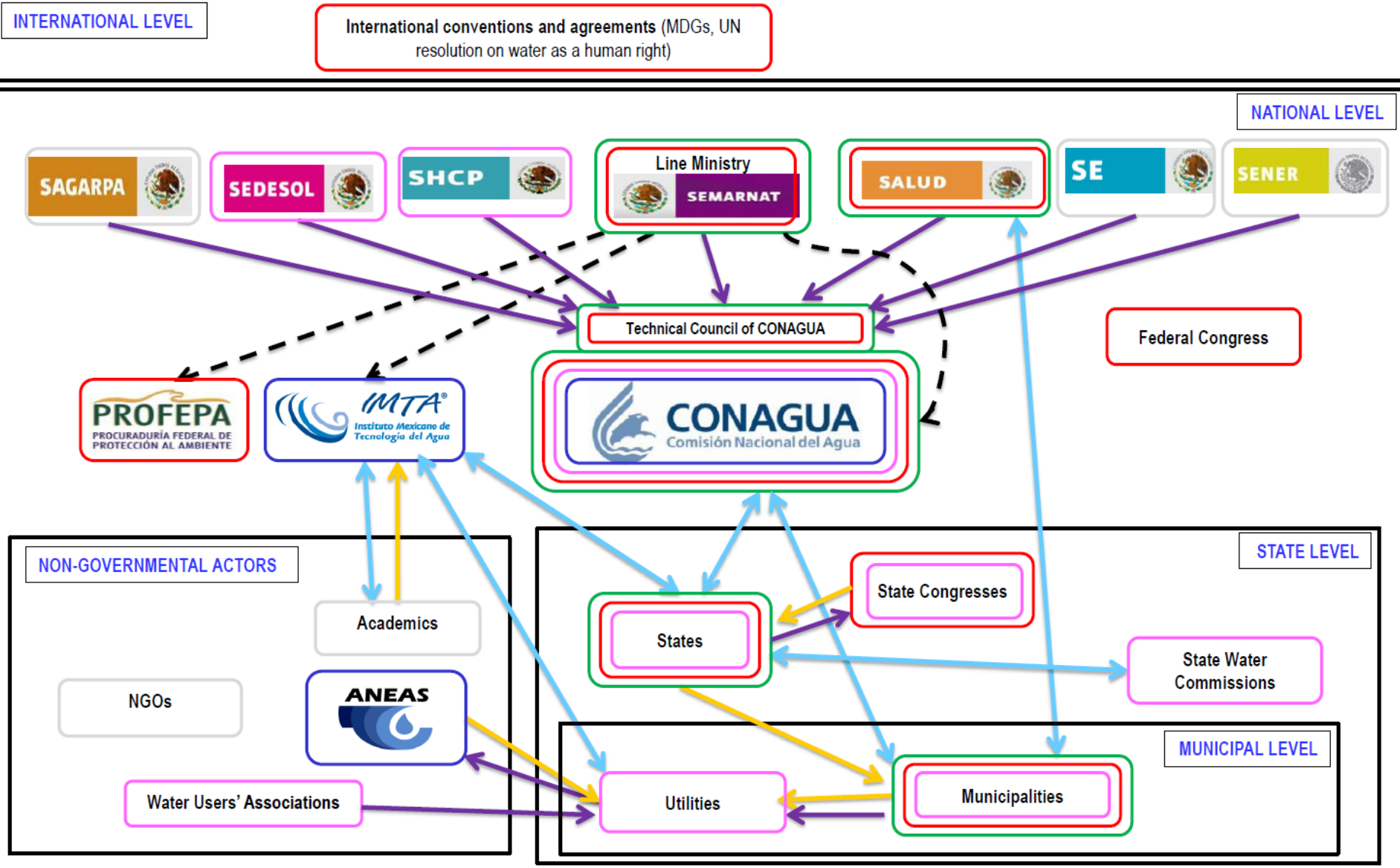
# Limited capacity of resp. authorities

Real change in government culture & practice => need to catalyse expertise within government on different areas (project preparation, procurement, enforcement & monitoring, economic regulation, dispute resolution...)

- **Egypt: capacity building mechanisms and tools** - Limited decentralisation of responsibilities; establishment of a PPP Central Unit within the Ministry of Finance; development of sector-specific tools; support from high level foreign consultants.
- **Russia: capacity at municipal level not addressed** - Creation of a PPP Centre within VEB, network of regional entities
- **Mexico: regulatory responsibilities for WSS scattered** across different levels of government and various legal instruments, resulting in overlaps, grey areas and gaps.



# Institutional Mapping of Roles and Responsibilities for Water Supply and Sanitation in Mexico



# Difficult financial sustainability

The cooperation will not work if financial sustainability is not ensured. This has 3 dimensions: value for money, cost recovery & affordability for governments

- **Most countries: low cost recovery & budget constraint** - water tariffs do not recover O& M costs owing to low levels (Greater Cairo: user charges = 11% of available finance) and low bill collection rates (some 50% in Egypt, down to 11% in South Bekaa, Lebanon). Limited room for public subsidies & tough political economy of tariffs increase.
- **Egypt: scalability & affordability for governments** - Limited scope of PPPs (demo BOTs for big projects) => demand risk born by the public sector, sovereign guarantee; Forex risk & limited development of local financial market & banking sector.

# Nascent accountability mechanisms

If used adequately, PPP can be a powerful leverage to promote transparency and accountability to users

- **Most countries: limited culture of performance based assessment** - just starting the development of monitoring indicators.
- **Russia: strengthening accountability in the public interest** - fighting corruption through limiting discretion, revising unrealistic regulation & establishing appropriate incentives; improving the information base and monitoring; strengthening the competitive environment
- **Big gap: users' involvement** – respective role of utilities & government?

# Conclusion: need for structured policy dialogues

- To build a consensual, realistic, evidence-based diagnostic of the factors inhibiting the flows of financial resources, based on a neutral platform between different levels of government, the private sector, and other stakeholders;
- To connect more tightly the policy level (decisions taken to improve the institutional and regulatory framework) with the implementation of projects in the water sector (from involving the community of financiers);
- To identify concrete tools and practices to overcome the bottlenecks to financial sustainability in the water sector & to ensure PPP affordability for governments, building on international experience;
- To work towards an Agenda for Action, defining the sequence of measures and reforms needed.

# Thank you

**Contact:** Céline Kauffmann,  
[Celine.kauffmann@oecd.org](mailto:Celine.kauffmann@oecd.org)  
+ 33 1 45 24 93 33