



Unlocking finance for  
water security:

Building capacities and  
raising awareness



*Finance  
working group*



Global Water  
Partnership



# Unlocking finance for water security: building capacities and raising awareness

Formed in 2003, the EU Water Initiative – Finance Working Group (EUWI-FWG) comprises representatives from the public and private sectors and civil society and is focused on helping to shape the financial strategy of the EUWI. The FWG encourages innovation, the development of institutional and regulatory frameworks and capacity building, and the use of development funding as a catalyst to leverage other forms of finance, including national budgets, donors and user and private finance, to improve access of the poor to water and sanitation services. The Global Water Partnership is an international network created in 1996. Its vision is for a water secure world and its mission is to support the sustainable development and management of water resources at all levels. The network comprises more than 2500 partners, including states, government institutions, intergovernmental organisations, non-governmental organisations, academic institutions and private businesses among others. The network has 13 Regional Water Partnerships and 80 Country Water Partnerships.

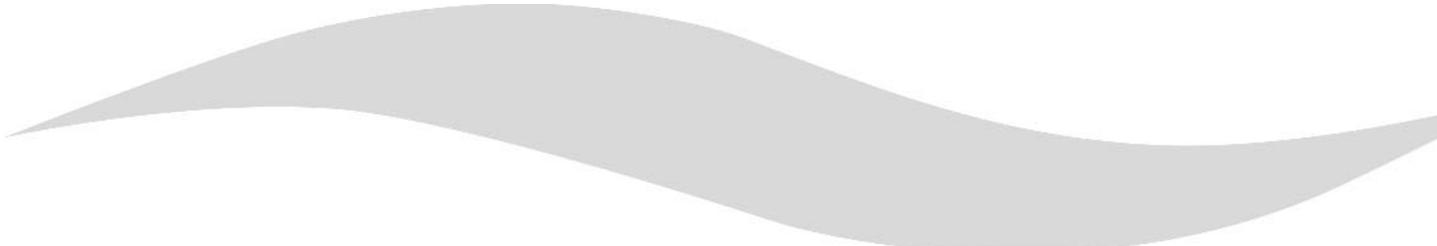
## **Acknowledgements**

This report was prepared by Gabriela Grau (Senior Network Officer, GWP) and Alan Hall (Chair of the EUWI-FWG) and is a synthesis of contributions by many people from the regions covered. In particular the authors wish to thank the GWP Regional Water Partnerships who organised and reported on the workshops: Avril Alexander (Caribbean); Vadim Sokolov (Caucasus and Central Asia); Christopher Tamu (Central Africa); Fabiola Tábora (Central America); Simon Thuo (Eastern Africa); Anthi Brouma, Barbara Tomassini and Sarra Touzi (Mediterranean); Andrew Takawira (Southern Africa); Nicole Bernex, Anna Machado and Santiago Ruiz (South America); and Dam Mogbante (West Africa). The review and contributions to the draft report by the EUWI-FWG members, Jim Winpenny and Johan Holmberg, are also gratefully acknowledged.

EUWI-FWG and Global Water Partnership  
Drottninggatan 33  
SE-111 51 Stockholm  
SWEDEN

[www.euwi.net/wg/finance](http://www.euwi.net/wg/finance)  
[www.gwp.org](http://www.gwp.org)

March 2012



## CONTENTS

<b>Acronyms</b> .....	<b>4</b>
<b>1. Background</b> .....	<b>5</b>
<b>2. Introduction</b> .....	<b>5</b>
<b>3. The workshops</b> .....	<b>6</b>
3.1 Awareness raising and knowledge sharing .....	8
3.2 Networking and technical exchanges .....	9
3.3 Political linkages .....	10
3.4 Leveraging additional funding .....	11
<b>4. Follow-up activities</b> .....	<b>12</b>
4.1 Highlight of key follow-up activities in each region .....	12
4.2 Lessons learned .....	15
<b>5. Key findings</b> .....	<b>18</b>
5.1 Cross-sectoral and multi-stakeholder coordination .....	18
5.2 Sources of finance .....	19
5.3 Mobilisation of finance .....	21
<b>6. Recommendations</b> .....	<b>22</b>
6.1 Awareness and political will .....	22
6.2 Capacity building .....	22
6.3 Knowledge management .....	22
6.4 Strengthening partnerships and alliances .....	23
<b>Table 1:</b> List of regional workshops .....	7
<b>Table 2:</b> Partnerships and leveraged funding .....	11
<b>Table 3:</b> List of follow-up national workshops and related events .....	16

## ACRONYMS

ACICAFOC	Asociación Coordinadora Indígena y Campesina de Agroforestería Comunitaria Centroamericana
ADB	African Development Bank
ADB-AWF	ADB African Water Facility
AECID	Spanish Agency for International Development Cooperation
AMCOW	African Ministers Council on Water
ANA	Autoridad Nacional del Agua (Peru)
ANDA	Administración Nacional de Acueductos y Alcantarillados (El Salvador)
ANEW	African Civil Society Network on Water and Sanitation
AusAID	Australian Agency for International Development
AWF	African Water Facility
BDEAC	Banque de Développement des Etats de l'Afrique Centrale
BFZ	Berufliche Fortbildungszentren der Bayerischen Wirtschaft
BMZ	Federal Ministry for Economic Cooperation and Development, Germany
CABEI	Central American Bank for Economic Integration
CACENA	Central Asia and Caucasus
CAN	Comunidad Andina
CapNet	UNDP Capacity Building Network
CARICOM	Caribbean Community
CDB	Caribbean Development Bank
CILSS	Comité permanent Inter-Etats de Lutte contre la Sécheresse dans le Sahel
COHIFE	Consejo Hídrico Federal (Argentina)
CWWA	Caribbean Water and Wastewater Association
DFID	Department for International Development, UK
EC	European Commission
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
ECOWAS-WRCC	ECOWAS – Water Resources Coordination Centre
EUWI-FWG	European Union Water Initiative – Finance Working Group
FOCARD	Central America and Dominican Republic Forum for Water and Sanitation
GEF	Global Environment Facility
GiZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GWP	Global Water Partnership
HLMS	High Level Ministerial Session
IFI	International Financial Institution
IWRM	Integrated Water Resources Management
OECD	Organisation for Economic Cooperation and Development
ODA	Official Development Assistance
PPP	Public Private Partnership
PRSP	Poverty Reduction and Development Strategy
RASHON	Red de Agua y Saneamiento de Honduras
RCCP	Regional Climate Change Programme (Southern Africa)
SADC	Southern African Development Community
SADC WRTC	SADC Water Resources Technical Committee
SDC	Swiss Agency for Development and Cooperation
SWM	Strategy for Water in the Mediterranean
UfM	Union for the Mediterranean
UNEP	United Nations Environment Programme
WACDEP	Water, Climate and Development Programme for Africa
WS&S	Water Supply and Sanitation
WSP-WB	Water and Sanitation Programme – World Bank

# 1. Background

Until recently it was rare for water professionals to consider financing issues. Water advocacy and plans were often aspirational – neglecting to show where the money would come from, how activities would be financed or who would pay for them. It was as if finance was somebody else's problem. Likewise, people from the finance sector have not given great importance to water related issues. However, this situation is changing and finance is becoming an essential topic in water management circles.

The EU Water Initiative – Finance Working Group (EUWI-FWG) and the Global Water Partnership (GWP) have been instrumental in influencing this change by deploying their strengths in terms of knowledge generation and engagement of a broad range of partners, and by clearly articulating the message that finance and good water governance are inextricably linked. Moreover, the need for water resources management and water services to be an integral part of national development plans has been highlighted in order to access government and donor finance.

The change process started in 2000 at the 2nd World Water Forum where investing in water was one of five key agenda items. The GWP paper, *Towards Water Security: A Framework for Action*, highlighted the link between good water governance and financing, and estimated that financing needed to double to meet demand. This focus on financing prompted GWP, together with the World Water Council, to set up a high-level panel on Financing Water for All, chaired by Michel Camdessus, a former Managing Director of the International Monetary Fund. The Camdessus Report, launched at the 3rd World Water Forum in Kyoto in 2003, sparked a plethora of studies, actions and debates, and encouraged international financial institutions – the World Bank, the Asian and African Development Banks and others – to extend their financing for water. To continue this momentum a Task Force was convened by GWP and WWC and chaired by Angel Gurría, former Finance Minister of Mexico.

The Task force focused on the demand side and Mr Gurría continues to promote water financing as Secretary-General of the Organisation for Economic Cooperation and Development (OECD), a lead player and key EUWI-FWG and GWP partner. To a large extent the focus has been on financing for the provision of water services to meet the Millennium Development Goals (MDGs) for water and sanitation, with less attention given to water resources management.

To extend the global-level awareness raised by these activities to the regional and country level, the EUWI-FWG and GWP set out in 2007 to raise awareness and build capacity of water professionals in financing matters. The aim was to bridge the gap between global policy debates and national practical application and to promote regional and country-level awareness, knowledge sharing and capacity building. The key mechanism was a series of regional workshops, together with some training and associated publications that aimed to bring together water and finance officials to improve understanding from their different perspectives. Financing issues were covered for a range of water services and for water resources development, management and use. Where possible the workshops were linked to regional political processes adding value to them. This report provides an overview of the workshops and their outcomes, and recommends future actions to build on progress.

# 2. Introduction

The main purpose of this initiative is to raise awareness of water professionals and officials of the tools and sources of finance needed for the range of water related interventions such as water supply, sanitation, water for sector uses (e.g. agriculture and energy), water resources management and ecosystems. The report thus covers a range of issues that together provide 'water security'. This is defined as the availability of an acceptable quantity and quality of water for health, livelihoods, ecosystems and production, coupled with an acceptable level of water-related risks to people, environments and economies.

The aim is to bring together government officials and experts through the informal network provided by the GWP. This helped to break down institutional barriers and bring together a range of stakeholders. All workshops were organised by local professionals and held in the region with a focus on achieving the following objectives:

- To raise awareness on financing issues and build bridges between water management/water supply/sanitation and finance officials and experts.
- To share knowledge and experiences of different types of finance by highlighting new mechanisms for financing and explaining linkages between finance and governance.
- To find solutions by identifying economically and financially viable alternatives in multiple-objective water programmes in order to meet social and political expectations.
- To devise follow-up mechanisms by identifying next steps to be taken at sub-regional, basin or national levels to enhance prospects for sustained investments.

The topics covered in the workshops were very diverse and focus was given to particular themes based on the regional or country priorities. The aim was to involve local/national professionals and stakeholders, and avoid the generalities often unavoidable at international workshops. The GWP network was instrumental in identifying key priorities and suitable individuals who participated in the workshops and events as speakers, facilitators and interested participants. All these workshops were designed in close collaboration between the EUWI-FWG, the GWP and regional and national water partnerships, which also supported follow-up activities. Workshops were also supported by numerous regional and national institutions that had a critical role in their success and follow up.

This initiative benefitted from the lessons learned and materials produced for the first three regional workshops and three country roundtables held as pilot initiatives. From the outset it was planned so that the workshops added value to on-going processes and provided a link to the development

of further national and local meetings. In many cases they triggered new processes in their respective regions and countries. This initiative took stock of GWP's reach and capacity to work locally and appropriately, as a means to get positive and sustained results on the ground. This was essential to organise the eight workshops held in Eastern Africa, West Africa, Central Asia and the Caucasus (CACENA), Central America, South America, Mediterranean, Central Africa and Southern Africa, as well as the national level workshops and training events that followed those workshops, including events in the Caribbean (see Tables 1, 2 and 3).

GWP and the EUWI-FWG developed knowledge products to support advocacy for better financing for water resources management and water service provision. The basic reading used in these workshops included an influential GWP Background Paper on water financing and governance<sup>1</sup>, a training manual (prepared with UNDP Capacity Building Network – CapNet) to set the theoretical framework of water financing<sup>2</sup> and an introduction to finance for water infrastructure and services<sup>3</sup>. In addition to these documents, the EUWI-FWG produced a paper on the rationale, methodology experience and lessons learned on strategic financial planning (SFP) for water supply and sanitation<sup>4</sup> and a basic introduction to financing for water and sanitation for practitioners and students in developing countries<sup>5</sup>. The training manual is now widely used by regional capacity-building networks and universities. These materials are available on the GWP ToolBox, EUWI and CapNet websites. The EUWI-FWG also collaborated with the OECD, which has produced several key papers on financing water<sup>6</sup>. Each region also produced local studies on financing at the country level and some key publications are available from the GWP Regional Water Partnerships.

### 3. The workshops

The regional workshops (Table 1) and related events (Table 3) responded to the need for building capacity on and encouraging cross-sectoral dialogue around water financing.

<sup>1</sup> J. Rees, J. Winpenny and A. Hall (2008). *Water Financing and Governance*. GWP TEC Background Paper No 12. Available in English, Spanish and French.

<sup>2</sup> GWP, CapNet and EUWI-FWG (2008). *Economics in Sustainable Water Management: A Training Manual and Facilitators' Guide*. Available in English, Spanish, French and Portuguese.

<sup>3</sup> EUWI-FWG (2007). *Financing Water Infrastructure and Services: An Introductory Guide for Practitioners in Developing Countries*. Available in English and Spanish.

<sup>4</sup> EUWI-FWG (2010). *Strategic Financial Planning for Water Supply and Sanitation in Africa*. Available in English and French.

<sup>5</sup> EUWI-FWG (2011). *Financing for Water and Sanitation: A Primer for Practitioners and Students in Developing Countries*. Available in English and French.

<sup>6</sup> See [www.oecd.org](http://www.oecd.org)

Table 1: List of regional workshops

Event	Place and date	Participants	Conveners and main supporters	Countries involved
Water Financing Workshop in West Africa	Ouagadougou, Burkina Faso 29–30 Mar 2007	64	Ministry of Agriculture, Hydraulic and Fisheries of Burkina Faso. GWP West Africa	Benin, Burkina Faso, Gambia, Ghana, Ivory Coast, Liberia, Mali, Niger, Senegal and Togo
Financing Water in Eastern Africa	Nairobi, Kenya 16–18 Apr 2007	124	AMCOW and the Government of Kenya. Jointly facilitated by GWP, WSP-WB and UNEP. GWP Eastern Africa	Burundi, Cameroon, Eritrea, Ethiopia, Kenya, Rwanda, Somalia, Sudan, Tanzania and Uganda
Financing Water in Central Asia and Caucasus	Tbilissi, Georgia 5–7 Feb 2008	60	Ministry of Environment of Georgia. GWP CACENA	Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan
Central American Workshop on Water and Finance	La Antigua, Guatemala 21–23 July 2009	47	SDC, WSP-WB, FOCARD and AECID. GWP Central America	Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua and Panama
South American Workshop on Water Financing	Bogota, Colombia 28–30 Oct 2009	47	GWP South America	Argentina, Bolivia, Brazil, Chile, Colombia, Peru and Venezuela
Expert Consultation on Finance and Water in the Wider Mediterranean Region. Workshop on Private Sector Involvement in Water Infrastructure	Madrid, Spain 24 Feb 2010 and Beirut, Lebanon 8–9 March 2010	74 Madrid 105 Beirut	EUWI MED, Greek Ministry of Foreign Affairs – Hellenic Aid, Spanish Ministry of Environment and Rural and Marine Affairs, EC, ADB, UNDP and GEF. GWP Mediterranean	Algeria, Belgium, Croatia, Egypt, France, Germany, Greece, Israel, Jordan, Lebanon, Luxembourg, Mauritania, Morocco, Occupied Palestinian Territories, Spain, Syria, Tunisia and United Kingdom
Central African Workshop on Water Financing	Douala, Cameroon 23–24 June 2010	62	AWF, ECCAS and AMCOW. GWP Central Africa	Angola, Burundi, Cameroon, Central African Republic, Chad, Democratic Republic of Congo, Equatorial Guinea, Gabon, Republic of Congo and Sao Tomé et Príncipe
5th SADC Water Dialogue: Financing Water for Climate Resilience to Ensure Regional Security	Ezulwini Valley, Swaziland 28–29 June 2011	150	SADC, RCCP and GiZ. GWP Southern Africa	Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe

The outcomes and follow-up initiatives not only show the considerable demand on training and dialogue around water financing issues but also reflect the considerable buy-in from key stakeholders. The successful implementation of this programme was founded on the 'ownership' at local level of the workshops and the political and institutional reach.

The workshops covered all aspects of water, domestic water supply, sanitation, water resources management and productive uses such as hydropower and agriculture. Each region designed its workshop based on local priorities; in most cases financing for water supply and water resources management were the most prominent issues.

Note: This table covers the main regional workshops supported by EUWI-FWG and GWP. For details of follow-up regional and country events and training workshops see Table 3.

### 3.1 Awareness raising and knowledge sharing

In terms of knowledge and experience sharing, all the workshops were ranked by participants as very useful or extremely useful. An important reason for this assessment was having brought together officials from Ministries of Water with those of Ministries of Finance, as well as government representatives with regional experts and other stakeholders. This is a tribute to the ability of GWP to convene a variety of actors relevant to the water sector. Whilst the workshops provided an opportunity for bringing together officials from these ministries, the difficulty of ensuring cross-sectoral participation needs to be highlighted, as shown by an under-representation of finance officials in many of the workshops.

The workshops were an opportunity for engaging in debate on priority water-financing topics. For example, in Central Africa, directors responsible for water challenged their counterparts in charge of finance on the lack of interest in developing water and sanitation, while the latter challenged the directors in charge of water for weak preparation and not following the right procedures when seeking government funding.

The rich discussions generated during these events helped clarify the broad range of options to finance water resources management and services (i.e. central domestic budget, budgets of local administrations, water supply tariffs, environmental services, loans, international cooperation agencies and trust funds for water management).

There was a good mix of stakeholders although in many workshops, such as Central America there was a majority with a water supply and sanitation background – nevertheless this did link the Water Supply and Sanitation WS&S and Integrated Water Resources Management (IWRM) experts and officials who are often from different ministries. In general, participants learned from those representing different sectors

and they became more aware of the inter-relatedness of financing issues surrounding water management. Likewise, in many cases the need for an IWRM approach when addressing water financing issues was highlighted by participants from a WS&S background. The workshops demonstrated how important it is to improve coordination to ensure funding for water management and its relevance for economic and social development.

In those workshops held in Africa a link was made between water and the MDGs and poverty reduction strategies (PRSPs). In most workshops there was active information sharing around the following topics: infrastructure development, roles and responsibilities, donors' procedures, capacity for mobilisation and absorption of funds, need for diversifying and implementing internal/national financing mechanisms and increased government spending on water, amongst others. The workshops also linked to regional and sub-regional processes such as the African Ministers Council on Water (AMCOW) meetings, the Africa Water Weeks, the SADC Water Dialogue and the process for elaborating a Strategy for Water in the Mediterranean (SWM) within the framework of the Union for the Mediterranean (UfM).

The agenda for each of the workshops was tailored to their main audience and purpose. It provided key issues and scope for discussion without too much detailed information that may have constrained discussion. Participants were able to bring up additional issues for discussion that were incorporated in the list of future follow-up actions. The agendas covered theoretical and methodological aspects as well as interesting examples of financing mechanisms for water management, and information delivered by International Finance Institutions (IFIs) active in the regions. The training workshop in Douala in February 2012 made much use of practical experiences from the strategic financial planning project in Lesotho that EUWI-FWG with support also from the ACP-EU Water Facility had implemented during 2008–2010, which was highly appreciated by participants.

Participants were generally satisfied with the topics covered in the workshops and requested follow-up meetings and training focusing on the different ideas/recommendations that came out of the discussions. The workshops were instrumental in identifying needs for further capacity building and knowledge sharing. It will be a challenge for the EUWI, GWP and other external support agencies to live up to the expectations for further assistance raised by these workshops.

### 3.2 Networking and technical exchanges

The Mediterranean regional workshop strengthened the role of water financing as a key element of the regional political processes and the framework of the UfM. These processes advance regional policy consensus, which is then translated into commitments applied at national level. Opportunities for joint activities and synergies with regional projects, regional stakeholders and IFIs, e.g. OECD and African Development Bank African Water Facility (ADB-AWF), and private banks are being actively explored in order to respond to the suggestions/recommendations expressed during the workshop.

In South America, senior professionals and officials from Costa Rica and Colombia came to an informal agreement to cooperate on the development of a water pollution levy. In Central America the workshop helped strengthen the alliance between GWP Central America with Water and Sanitation Programme – World Bank (WSP-WB) and the Swiss Agency, who were co-conveners and also contributed financially.

Collaboration was enhanced between GWP West Africa and the Economic Community of West African States (ECOWAS, the regional economic community) on sharing the outputs of the meeting, and then through the joint organisation of a workshop on fundraising. Also, the Comité permanent Inter-Etats de Lutte contre la Sécheresse dans le Sahel (CILSS) joined in the organisation of the West African sub-regional dialogue on water, climate change and national development

held in Cotonou in February 2010 and then through the development of a Regional Initiative on Strengthening Resilience to Climate Change in West Africa through the Development of Water and Sanitation.

In the CACENA region the regional workshop on water financing held in Tbilisi, Georgia in 2008 brought IWRM aspects into water financing issues and reached out to partners at political and professional levels. It involved experts from key sectors (e.g. economics, irrigation and environment) and contributed to capacity building of leading experts and policy makers. A key outcome of the regional meeting was a set of country-level studies and a follow-up workshop in Atyrau, Kazakhstan, and a training course in Azerbaijan in 2008.

In Central Africa, senior officials from two key ministries (budget/planning and water) were brought together for the first time. It raised awareness of the role that the Central African Development Bank (BDEAC) can play in supporting financing for water and sanitation. It was also an occasion for some of the participants to discuss on a one-to-one basis past, current and future initiatives with the ADB-AWF representative. During this workshop the role of the Economic Community of Central African States (ECCAS) was highlighted as an important catalyst for political leadership in the region and it led to further discussions on the development of a Regional Water Fund for Central Africa.

The regional workshops strengthened a number of partnerships in each region. For example, the SADC Water Division and GWP collaborated to facilitate regional understanding and cross-sectoral engagement on financing water, which continues to strengthen the relationship with political bodies in the region. The Southern Africa Dialogue was instrumental in developing the regional Climate Change Programme and made a link between the climate programme and water resources management thus facilitating the engagement of water professionals and officials in climate change issues and climate finance.

### 3.3 Political linkages

The Eastern Africa workshop in Nairobi included a ministerial session with participation of five ministers of water and planning from Eastern Africa. The ministers agreed on a statement based on workshop outcomes, which was adopted by AMCOW at its ministerial meeting in Brazzaville in May 2007. AMCOW followed up on the Brazzaville meeting, which resulted in a higher profile for financing issues in the African Union's Sharm El Sheikh Declaration (2008). This also called for a meeting of African water and finance ministers to determine a way forward for financing water.

Building on the impetus of the workshops in Africa and to secure water financing for the continent, the EUWI-FWG and the ADB supported AMCOW in convening a session on Financing Water Resources Management at the 2nd Africa Water Week held in Johannesburg in November 2009. This event helped to build capacity on financing issues and was followed up at the 3rd Africa Water Week held in Addis Ababa in November 2010. As the Minister of Water for Mauritania emphasised, such "knowledge and capacity development are critical if governments are to improve financial management and meet international obligations". The main outcome was an agreement on the need to build a favourable investment environment to balance financing for infrastructure and financing for 'soft' interventions, and develop a more robust economic case for investing in water.

The workshops held in Africa helped elevate financing for water and supported AMCOW's role and potential as a policy platform to present reform measures. They built capacity and enhanced collaboration particularly between AMCOW, UNEP, GWP, ADB, WSP-WB and the African Network of Civil Society on water and sanitation (ANEWS). The multi-agency cooperation and stakeholder dialogues made a significant contribution to supporting the Sharm el Sheikh Summit decisions on a wide range of financing issues.

In the Mediterranean region, the meetings brought together representatives from ministries in charge of water and finance

and representatives from regional organisations and IFIs. The meetings served as a platform to discuss the main opportunities and priorities that countries encounter with regard to financing water and sanitation and specifically the dual issues of water resource management and service provision. The representation of a large and balanced number of national and regional institutions was crucial for reaching valid results that provided a direct contribution to the elaboration of the chapter on financing of the SWM.

The SADC Water Dialogue focused on increasing the understanding of water financing and the role that climate finance will play in ensuring that the resource continues to contribute to regional security. Considering the centrality of water in regional development, with regards to energy security, food security, industrial development and health, financing water resources to ensure adaptation to climate change is critical. The meeting was also held back-to-back with the SADC Pre-Water Investment Forum for financing water infrastructure. The latter included an input by the Chair of EUWI-FWG thus building a link between the expert workshop and the investment community. The findings of the pre-investment forum were taken forward to the SADC Water Ministers and the SADC Water Investment Forum held in Maseru, Lesotho in 2011. Outcomes from the SADC Water Dialogue were also taken forward to the SADC Water Resources Technical Committee (SADC WRTC), which brings together SADC Water Directors and linked to the implementation plan for SADC Water Programmes in the region and thus increased possible opportunities for implementation.

Although not originally planned the EUWI-FWG supported workshops in the Caribbean, including two High Level Ministerial Sessions (HLMS) with ministers responsible for water affairs as well as regional political institutions such as the Caribbean Community (CARICOM) and the Caribbean Development Bank (CDB). These were organised by GWP-Caribbean and included representatives of IFIs and bilateral donors. The HLMS meetings recognised the lack of a mechanism to follow up the valuable discussions and

Table 2: Partnerships and leveraged funding

Events – GWP Region (note 2)	EUWI-FWG	GWP (note 1)	Other sources	Total	Comments on additional funding sources
Water Financing Workshop in West Africa	32,000	7,000	3,000	42,000	Canada (PAWD programme). In kind from Burkina Faso government and voluntary inputs from governments and stakeholder in the region
Financing Water in Eastern Africa	31,000	4,000	56,000	91,000	Canada and the Netherlands (PAWD programme)
Financing Water in Central Asia and Caucasus	31,000	14,000	9,000	54,000	Governments
Central American Workshop on Water and Finance	28,000	10,000	7,000	45,000	WSP-WB and in-kind from SDC
South American Workshop on Water Financing	30,000	14,000	Not known	44,000	Additional in-kind support from GWP Partners
Expert Consultation Workshop on Finance and Water in North Africa and the Wider Mediterranean Region. Workshop on Private Sector Involvement in Water Infrastructure	30,000	Not known	33,000	63,000	Locally raised funds from multiple donors including Greece, Hellenic Aid, to cover events in Madrid and Beirut
Central African Workshop on Water Financing	30,000	18,000	17,000	65,000	African Water Facility and ECCAS
5th SADC Water Dialogue: Financing Water for Climate Resilience to Ensure Regional Security	29,000	24,000	122,000	175,000	Danish Aid, Regional Climate Change Programme and GiZ (on behalf of BMZ, DFID and AusAID)
Caribbean HLMS and Kenya and Cameroon training (see Table 3)	36,000	7,000	60,000	103,000	CapNet, German Aid and others
<b>Total Euro</b>	<b>277,000</b>	<b>98,000</b>	<b>307,000</b>	<b>682,000</b>	

conclusions and requested GWP-Caribbean and CARICOM to discuss a possible arrangement similar to AMCOW in Africa.

### 3.4 Leveraging additional funding

The total cost for the regional workshops and training was Euro 682,000 as shown in Table 2. The EUWI-FWG provided Euro 277,000, GWP Euro 98,000 and other sources Euro 307,000. The funding from other sources and collaboration with many partners reflects the interest and demand for knowledge on financing. The EUWI and GWP support stimulated extensive follow-up initiatives as reflected in Table 3. The overall total is higher than that recorded, as additional

funds were provided by governments and NGOs that were not accounted for by the GWP network as well as considerable in-kind contributions. However, the number of events and their outreach are clear indicators of the funding leverage of this programme. Altogether more than 80 developing countries have benefitted from the programme.

The EUWI-FWG and GWP has thus facilitated the pooling of funds from numerous sources and mobilised officials and experts from different areas of expertise including officials from finance and planning ministries to enable the development of capacities on financing water in key development regions. This provides an example of significant

Notes:

- 1 Includes funds from the GWP Secretariat and Regional Water Partnership but does not include the considerable in-kind contributions provided by many local partners.
- 2 The amounts shown are rounded and the table covers only the main workshops financially supported by EUWI-FWG funds. Financial information on other events organised locally as listed in Table 3 is not available. Contributions from governments and NGOs are not included.

added value at local level from many stakeholders and of disseminating knowledge generated from global processes.

## 4. Follow-up activities

There was overwhelming demand for training, promotion of technical and information exchanges, and facilitation for dialogues on water financing following all the regional workshops. The follow-up initiatives are an important outcome of the regional workshops and extended the coverage, focused the interest and understanding of water financing and triggered a number of development processes. Most importantly it resulted in a more extensive reach at country level. It is not possible to capture all the activities in all regions but a brief summary of the main highlights of some activities is given below and summarised in Table 3.

### 4.1 Highlights of key follow-up activities in each region

#### **West Africa**

In West Africa, the regional workshop on financing also informed the Programme for Africa's Water Development. It resulted in the inclusion of a specific programme component on 'increasing the understanding of and access to a broader range of financing instruments'. The workshops thus helped to make the IWRM planning process in 10 countries in Africa more realistic by the inclusion of financing issues. Two national roundtables were also organised as follow ups:

*Ghana (2008):* The Roundtable on Water Financing was supported as part of the regional workshop budget. The main outcome was a financing strategy for the implementation of the IWRM Plan of the Densu Basin, which included an estimate of costs and potential sources of funding.

*Mali (2008):* A roundtable was organised after the regional workshop to coincide with the GWP support to the Mali Government on preparation of a national IWRM plan, which resulted in the inclusion of a financing section as part of the plan.

#### **Eastern Africa**

The Regional workshop informed the IWRM planning process in Burundi and highlighted financing needs for potential water infrastructure projects to be funded by the ADB. In Uganda, it led to a proposal for a new system of management between central government, local authorities and credible NGOs to improve budget flows and reduce delays in government budget releases. The latter are often disbursed in the final quarter of the year, thus remaining unspent, with unused funds being returned to the treasury. In Kenya, a water resources funding plan was prepared as part of the IWRM planning process. A training course was also organised by CapNet, with FWG support, which is described below.

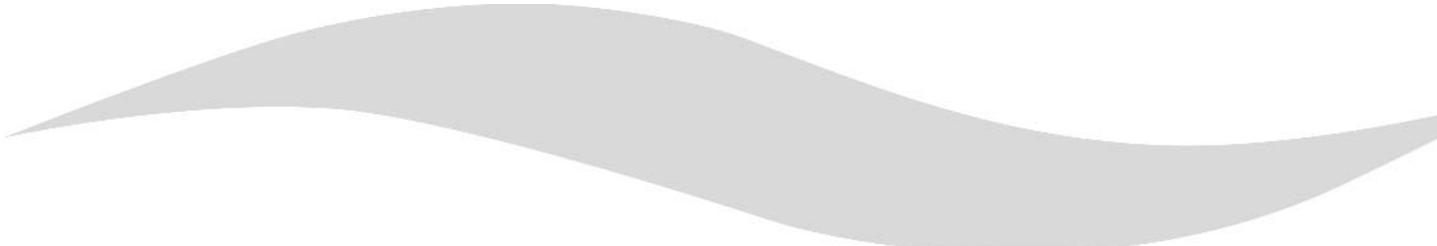
#### **Central Asia and Caucasus (CACENA)**

Following the regional workshop in Georgia in February 2008 the eight CACENA countries carried out studies on financing and shared their findings as a meeting in Atyrau, Kazakhstan, June 2008. During this meeting, GWP partners finalised the regional review on water financing in all eight countries. This was followed by training on water financing for water and sanitation in Baku, Azerbaijan, in July 2008, and a meeting in Yerevan (Armenia) with the Central Asian and Caucasus Water Utilities Network in late September (with support from Department for International Development – DFID). During the meeting held in Yerevan there were discussions on progress in implementation of the Almaty Ministerial Conference Action Plan on urban water supply and sanitation. A capacity-building programme was developed by each country together with CapNet.

#### **Central America**

*Honduras (2009):* The water and sanitation network of Honduras (RASHON) organised an international workshop to discuss the issue of finance mechanisms for water and sanitation, with participation of the Ministry of Finance.

*El Salvador (2010):* The workshop was linked to the process of water tariffs revision carried out by Administración Nacional de Acueductos y Alcantarillados (ANANDA), the governmental agency in charge of water and sanitation in El Salvador. Following this process a new tariff system was put in place in 2010.



*Costa Rica (2010):* The regional workshop influenced the inclusion of water financing in the agenda of the Central American Fair on Community Water Management, which included a session on the applications of financial instruments and an analysis of opportunities to scale up their implementation. The Water Directorate in Costa Rica, with GWP support, coordinated meetings with the National System of Conservation Areas and the Ministry of Finance to identify mechanisms for an effective use of funds collected through the water use levy and ensure they are transferred to the Water Directorate.

### **South America**

*Peru (2009):* GWP Peru with support from Peru's Amazonian Parliament of the National Congress and the National Water Authority organised a workshop on the 'Institutional Framework for IWRM and Financing Mechanisms'. Participants became aware of innovative mechanisms – presented by the Ministry of Finance – and successful initiatives related to government investment in IWRM. The WSP-WB emphasised the gap in such services, highlighting the potential for access to new financial sources such as commercial banks and private pension funds. The workshop also helped water institutions to recognise the importance of the IWRM approach, adopted by Peru in the Water Resources Act, Law 29,338 (to which GWP contributed).

*Argentina (2010):* A national level workshop was held with the aim of sharing the broad diversity of instruments applied in this federal country and promoting good practices and cooperation. It was organised by the Federal Water Council (COHIFE) in cooperation with GWP Argentina. It was attended by 15 of the 23 autonomous provincial jurisdictions, gathering the top federal government water authorities. The provincial authorities received information about diverse practical experience and further bilateral exchanges about water financing mechanisms were agreed. In the following months, within the framework of COHIFE, a working meeting was held with participation of Rio Negro Province and the other Patagonian Provinces.

### **Mediterranean**

The workshop in Madrid highlighted the benefits from the development of two Public Private Partnerships (PPP) national assessments in Lebanon and Tunisia, which together with the one previously completed in Egypt, shared experiences and lessons learned and provided a substantial insight on PPP in the region. It also facilitated discussions with key organisations and IFIs on expanding the activity to other countries in the region. The outcomes of the Madrid Workshop provided direct input into regional political processes and primarily to the elaboration of the draft Strategy for Water in the Mediterranean.

*Beirut (2010):* The national meeting addressed some of the obstacles and challenges related to the Lebanese 'enabling PPP framework'. It stimulated debate and formulated a set of recommendations to assist the Lebanese Government in its policy towards PPP for Water Infrastructure. The main outcome was an expression of interest for collaboration from the Lebanese Ministry of Energy and Water and private banks to make progress on PPP contracts for water and sanitation in Lebanon with the preparation of a roadmap for next steps. Recommendations included the preparation of 'Business Case Studies' for one or two projects as a basis for future discussions and consultation. The private banks requested the organisation of an event to present and analyse the technical and financial feasibility (including issues of risks and guarantees) of water infrastructure projects ready to be financed through PPP contracts. Therefore, the regional financing workshop directly supported a process of constructive dialogue on PPP in the country.

The meeting was linked to the Beirut Water Week, an event of regional scope, where dialogue continued between the Lebanese national authorities and the private banks. Discussion were also held on extending this type of work at regional level through the organisation of a Mediterranean/Middle Eastern conference on water in the green economy and the role of the private sector and banks (planned for towards the end of 2012, in Beirut).

### **Central Africa**

An explicit demand from the regional workshop was for follow-up national workshops in Cameroon, Central African Republic, Congo and São Tomé and Príncipe to validate the results of preliminary studies carried out in these countries on the financing of water over five years. ANEW reported that the workshop stimulated their drive to carry out advocacy for the financing of water and sanitation in Africa and that it triggered a new process within the framework of their actions.

The regional workshop contributed to discussions on the financing of the initial implementation of the Central African Regional Water Policy by the ADB-AWF. Also, negotiations were held between ECCAS and GWP-Central Africa to prepare a water financing vision for the region as a whole and the development of subsequent phases of the regional water policy.

### **Caribbean**

A regional workshop on financing water in the Caribbean was held in Port of Spain, Trinidad in September, 2008. The clear interest and need for addressing water financing in this region led the GWP-Caribbean to hold a subsequent regional water financing workshop in St. Kitts in April 2009 (in conjunction with CapNet/Caribbean WaterNet) and workshops in Grenada in July 2009 and Suriname in April 2010. EUWI-FWG and GWP also provided support for two regional HLMSs held by GWP-Caribbean in collaboration with the Caribbean Water and Wastewater Association's (CWWA) annual conferences on water and sanitation in the Caribbean.

*Jamaica (2008):* The HLMS brought together ministers, senior officials and finance experts to discuss tariff reforms and the kind of processes that were required in order to price water. This knowledge and information was useful to inform tariff adjustment discussions in countries in the region.

*Guadeloupe (2011):* A second HLMS on financing water was attended by five ministers with responsibility for water and led to a series of recommendations for follow up by regional organisations including GWP-Caribbean. These related to

regulatory frameworks for setting tariffs, the introduction of sustainable cost recovery measures for water utilities, applying the IWRM approach and creating an enabling policy environment to mobilise financing from various sources. The HLMS also called for the establishment of a sub-committee at the regional level to support and follow-up compliance with HLMS decisions on water and financing. The latter is now under discussion by CARICOM and GWP for possible support by the EUWI.

### **Southern Africa**

The outcomes of the regional workshop guided the SADC WRTC in the preparations for the SADC Water Investment Forum, with regards to participants and some key points for discussion. The Investment Forum was held with SADC Water Ministers, cooperating partners, development banks, commercial investors and other practitioners from energy, agriculture and industry. This forum, which was aimed at exploring innovative ways of financing water resources development also brought into discussion the importance of financing water resources management. Furthermore, the outcomes of the Southern Africa workshop will also be implemented as part of the SADC Regional Strategic Action Plan III Programme on Financing Water. One key outcome was a recommendation for the region to deepen the understanding on financing of ecosystem services and catchment management – a study has been commissioned in the region to identify examples and to illustrate how countries can improve on this.

### **Regional training workshops**

In addition to the regional and country workshops, two training courses were held: in Kenya and in Cameroon. Both courses were carried out in partnership between the EUWI-FWG and CapNet, with GWP also involved in the Cameroon training.

*Kenya training (November 2011)* was a full week on Innovative Financing for Water Utilities in Eastern Africa. The training was organised by CapNet, Berufliche Fortbildungszentren der Bayerischen Wirtschaft (BFZ) and

InWent, with support from the EUWI-FWG to provide a contextual overview of financial issues surrounding water resources and services in Kenya and the Eastern African region, and to understand functions of commercial accounting and performance monitoring in evaluation of financial risks and credit access. The course recognised the need for improved governance, better cost recovery and enhanced funding in order to meet targets. To date, most efforts have been targeted towards government and donor resources, which are not adequate or sustainable in the long-term. Key lessons from the training include:

- Revenue generated from water services has increased considerably, for example in Nairobi from Kenya shillings 80 million/month (2004) to 500 million (2010), but this has not yet attracted proportionate interest from financial institutions;
- PPPs offer gains other than finance by improving management efficiency, best exemplified by case studies of the Nyeri and Embu Water Utilities;
- There is a need to demystify the thinking that water resources management is expensive by appreciating that there are short-, medium- and long-term funding requirements, but lack of local case studies limits this effort.

As a follow-up measure, negotiations are at an advanced stage with the Kenyan Strathmore University School Business and Accountancy for three types of actions: documenting reference cases based on commercial funding to Nyeri and Embu Water Utilities, to examine successes and difficulties encountered; to organise further events to review alternatives for water funding; and to make a case for strategic financial planning supported by the EUWI aimed at modelling financial demand and supply trends in Kenya.

*Cameroon training* (February 2012) was implemented at the request of GWP Central Africa. The purpose was to provide initial training in strategic financial planning for the water supply and sanitation sector, using experiences from a project in this area implemented with support from EUWI-FWG

and the ACP-EU Water Facility in Lesotho during 2008–2010. There were 15 participants from Cameroon, Central African Republic, Republic of Congo and São Tomé and Príncipe; however, the participant from Ivory Coast was unable to attend owing to visa problems.

This training workshop was a follow up to the regional workshop held in June 2010 with an emphasis on more practical guidance for implementation of strategic financial planning. This was much appreciated by participants who expressed interest in further assistance in this area – something for the EUWI-Africa Working Group to consider.

## 4.2 Lessons learned

In general, there was good representation in all workshops by central and local governments and other stakeholders. Special attention was paid to ensuring the participation of finance and water experts, while the composition was very diverse and often included participants from other key sectors, academia and cooperation agencies. It was particularly challenging ensuring the participation of the finance sector; and participants with a water and sanitation background dominated the meetings. Nevertheless, the workshops brought together people from outside the 'water box'. They raised awareness of financing issues both for water services and for water resources management.

The diverse composition of participants had a big influence in the delivery of the workshop since the discussions were positively influenced by the strong advocacy of the water and environment people. Participants included decision-makers and practitioners mainly from the public sector, most of whom were practitioners with well-grounded and hands-on experience. IFIs and donors were present and active in most workshops. Participation of the private sector was variable. In all regions non-profit organisations were well represented but the for-profit companies were only prominent in the Mediterranean and Latin American workshops. The level of discussions was generally very high and always constructive, leading to good quality recommendations and proposed

Table 3: List of follow-up national workshops and related events

<b>Event</b>	<b>Region and place</b>	<b>Date</b>	<b>Countries involved and main supporters*</b>
Financing Strategy for the Implementation of the IWRM Plan of the Densu Basin of Ghana	West Africa Koforidua, Ghana	Feb 2008	Ghana Water Resources organisations, urban and rural water supply agencies, District Assemblies, Ministry of Food and Agriculture, Forestry Commission, World Bank, Environmental Protection Agency, NGOs and the media
Follow up to regional financing workshop	CACENA Atyrau, Kazakhstan	June 2008	Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan
Training Workshop on financing for water and sanitation	CACENA Baku, Azerbaijan	Jul 2008	Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan
Workshop on financing for water	Caribbean Port of Spain, Trinidad & Tobago	Sept 2008	Barbados, Dominica, Guyana, St Vincent, St Kitts, Trinidad and Tobago WaterNet/CapNet
High level session in the Ministerial Forum on financing for water	Caribbean Montego Bay, Jamaica	Oct 2008	Ministers of water in the region CWWA
Workshop 'Economic and Financial Instruments'	West Africa Lomé, Togo	Dec 2008	Benin, Burkina Faso, Cameroon, Cape Verde, Guinea, Ivory Coast, Mali, Mauritania, Niger, Senegal and Togo CapNet and WaterCap
Three country workshops on water financing constraints – Eastern Africa Roundtables	Eastern Africa, Burundi, Kenya, Uganda	2008	Burundi, Kenya and Uganda
Economic and Financial Instruments for IWRM	Caribbean Basseterre, St Kitts	April 2009	St Kitts CapNet/Caribbean, WaterNet
Economic and Financial Instruments for IWRM	Caribbean St Georges, Grenada	July 2009	Grenada CapNet/Caribbean, WaterNet
Seminario Internacional sobre Agua y Finanzas	Central America Tegucigalpa, Honduras	Oct 2009	El Salvador, Guatemala, Honduras and Nicaragua RASHON, SDC, WSP-WB
Institutional Framework for IWRM and Financing Mechanisms	South America Lima, Peru	Dec 2009	Peru, Amazonian Parliament of the Peruvian National Congress, ANA, National Water Authority
Financing Water Resources Management in West Africa – Country Roundtable	West Africa Cotonou, Benin	Feb 2010	Benin, Burkina Faso, Ghana, Guinea, Ivory Coast, Mali, Niger, Senegal and Togo ECOWAS-WRCC and CILLS
Central American Fair on Community Water Management – Full day session on water and finance	Central America San Jose, Costa Rica	March 2010	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama Local institutions (e.g.FANCA, CCAD, AECID and ACICAFOC)
Economic and Financial Instruments for IWRM	Caribbean Paramaribo, Surinam	April 2010	Surinam GWP-Caribbean, Anton de Kom University, CapNet/Caribbean, WaterNet

\* GWP Regional and Country Water Partnerships were actively involved and often contributed with their own funding.

Table 3 *continued...*

Event	Region and place	Date	Countries involved and main supporters*
Regional training workshop on economic and financial instruments in shared basins	Central America El Zamorano, Honduras	June 2010	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama CABEL, Zamorano Agricultural University, EU
Beirut Water Week – Special Session on 'Financing for Water Infrastructure'	Mediterranean, Beirut, Lebanon	Oct 2010	Egypt, Jordan, Lebanon, occupied Palestinian territory and Syria MED-EUWI, Greece (Lead Country), EU member states. Lebanese Ministry of Energy and Water, and private donors (e.g. private banks and companies)
First National Workshop on the Economic Value of Water	South America Ushuaia, Argentina	Nov 2010	Argentina COHIFE and Government of Tierra del Fuego Province
7th High Level Session Ministerial Forum on Water Management Financing in the Caribbean: Pricing, Efficiency Equity and Sustainability	Caribbean Le Gosier, Guadeloupe	Oct 2011	Barbados, Dominica, Grenada, Guadeloupe, St Kitts and Nevis, and Trinidad and Tobago CWWA, CARICOM, CDB, Caribbean Environmental Health Institute, Inter American Development Bank, Organisation of American States, World Bank
Training on innovative financing for water and sanitation	Eastern Africa Mombasa, Kenya	Nov 2011	Kenya CapNet, WaterCap, BFZ Germany, WASPA, KEWI
Training on strategic financial planning (in French)	Central Africa Douala, Cameroon	Feb 2012	Cameroon, Chad, Gabon, Central African Republic, D R Congo and Sao Tome CapNet

follow-up actions. The water experts were generally unaware of many financing issues and the workshops have been very useful in giving people the fundamentals of finance as a basis for being better informed on financing for water services and for more holistic and integrated water management.

An important criterion to select the cases used to illustrate the application of financial mechanisms was their relevance to the local situation, potential to inspire the audience and ability to share lessons learned. This exercise of experience sharing amongst senior professionals was extremely rich and led to technical exchanges at institutional level. The participants greatly appreciated the documents provided during or before the workshop. For the training sessions the documents provided covered the theory of water financing and information on real experiences illustrating how to apply the broad range of mechanisms. Cases were used to promote

innovative financial approaches to water financing. The workshops also linked to other EUWI-FWG activities, in particular to promote strategic financial planning based on the Lesotho study<sup>7</sup>.

The participation of senior and top level management from different institutions compelled the participants to deal with real issues and propose workable solutions. Stewardship under the neutral umbrella of GWP was appreciated and helped bring together a range of institutions involved in water services and management. This facilitated the search for long-term solutions to difficult problems that may not be addressed in the more formal interaction between government bodies, donors and user groups.

The workshops were carried out at regional level with national stakeholders to expand the reach of the programme, with the aim of encouraging countries to undertake a similar initiative

<sup>7</sup> EUWI-FWG (2010). *Strategic Financial Planning for Water Supply and Sanitation in Africa*. Available in English and French.

tailored to their local context and needs. This approach was very successful – bearing in mind the number of national-level initiatives that took place as follow-ups to the regional workshops, often using their own funding (see Table 3).

All workshops were opened and closed by ministers or high government officials, which raised the political profile of the activity. The local media were present in most workshops and resulted in local newspaper and/or TV coverage.

The workshops have demonstrated the need for political will as a fundamental element to make the reforms needed for the application of financial and economic instruments. Likewise, it was generally recognised that good governance and financing are very closely related and that to satisfy financial needs it is necessary to have a clear strategic framework, good governance and to apply an integrated approach to ensure joined up decision-making given that water is fragmented across several ministries and other institutions.

The GWP network at regional and national level is an important instrument to facilitate the delivery of the regional workshops and follow up in some countries. The convening power of the GWP regional network was a significant factor contributing to the successful outcome of many workshops by creating a forum for actors from different sectors to come together to discuss water-related issues.

The main limitation for expanding the reach of these workshops was budgetary. Valuable opportunities for follow-up actions were missed because of a lack of financial resources. Some limited resources were available for follow up; however, they were inadequate. A lesson is that more contact is needed with funding agencies so that resources for follow-up were arranged immediately after the workshops to ensure continuity. The next generation of the EUWI should allocate funds for strategic follow-up activities related to this capacity-building programme.

## 5. Key findings

### 5.1 Cross-sectoral and multi-stakeholder coordination

Finance and planning officials very seldom have the chance to interact with water professionals and vice versa. As a result, they are not well aware of the needs, constraints or opportunities of each other's sectors. It is essential to improve understanding of each group and the links between good governance and water financing. A holistic and integrated view towards financing water as a whole is fundamental to develop synergies amongst the different functions of each water user, so that those sectors that are more unlikely to generate funding can still operate to meet social and economic development needs and environmental sustainability. Moreover, it was clear from the workshops that whilst considerable progress has been made on financing for water supply and sanitation services very little is known about financing for IWRM.

Shared surface and ground waters that cross national boundaries are a particular problem for financing water resources development for productive uses such as agriculture, energy and industry, as well as for financing the management functions essential for equitable and sustainable development and use. Ministries in charge of foreign affairs and international cooperation also need to be engaged in trans-boundary water management to put in place the required risk mitigation mechanisms in order to attract finance<sup>8</sup>.

There is a clear need for regular dialogues within government – between the ministries in charge of water, finance and economic planning – and between government, finance institutions and civil society. Whilst the workshop outcomes were not binding, many were linked to political processes and provided information and ideas to help governments to find

<sup>8</sup> See forthcoming EUWI-FWG paper on Financing Water Resources Management in Africa.

solutions to key policy and implementation problems. Thus, they contributed to advancing the development agenda. Some workshops (e.g. Eastern Africa, Southern Africa and Mediterranean) were more directly linked to political processes that had direct impacts such as strengthening financing issues in AMCOW, SADC and the draft SWM.

The workshops have influenced GWP's policy and capacity-building work and triggered a number of activities around water financing across much of the network of 80 country partnerships. This would not have been possible without the many partners involved. In particular it provided support to the multi-donor Programme for Africa's Water Development (PAWD) such that the development of IWRM plans included financing issues. The workshops have facilitated the sharing of knowledge developed by the EUWI-FWG, in particular on strategic financial planning and on financing for water resources management. Indeed the EUWI-FWG, together with OECD, has been at the forefront of addressing the lack of understanding of this aspect of financing water.

## 5.2 Sources of finance

The OECD and EUWI-FWG developed the concept of the 3Ts (Taxes, Transfers and Tariffs) to illustrate the only three sources of finance for water and sanitation. This concept was a key element of most workshops and was a simple reality check for water professionals and lobby groups to appreciate there is no 'magic bullet' when it comes to financing water. The 3Ts forms the basis of the strategic financial planning approach that was presented in several workshops and in the training held in Kenya and Cameroon. An outline of the points that arose on these sources of finance during the workshops is given below.

### ***Payment for water (tariffs)***

Water continues to be charged well below the cost of supply, operation and maintenance. There is a need for overcoming administrative and water governance bottlenecks linked to

realistic and socially fair tariff reforms with predictable and targeted subsidies. The recent call for water as a human right is often wrongly interpreted as free water for all, which can be a constraint to the setting of tariffs, the collection of revenues and the development of services.

It is important to access revenues from water users and business consumers including from those responsible for pollution. The increase in tariffs for water services and the introduction of the polluter-pays principle are critical to accessing finance. Tariffs should be introduced step-by-step and should be complemented by improved services. Tariff committees can be set up for regulation, to avoid monopolies and ensure pro-poor measures. It is important to avoid establishment of too-high standards in order to avoid insufficient finance from providing overly costly services. For example, sustainable sanitation options should be designed that are feasible from economic as well as social and environmental aspects.

Very successful local initiatives are possible through micro-finance, which is an effective scaling up mechanism that can help to attract funds for pilot projects on enhanced participation of community based organisations or water users associations. Outcomes from the workshops prompted the EUWI-FWG to carry out a study on accessing more private finance through small-scale financing mechanisms<sup>9</sup> (micro- and meso-level funding). This included a case study in Kenya and experiences from Tanzania and India. This was discussed at a seminar at the Stockholm Water Week in 2011 and a study report will be published in 2012. In Peru, some micro-finance institutions like Caja Municipal de Ahorro y Crédito del Cusco (a regulated micro-finance institution) provide loans for sanitation (on-site connection and construction of bathrooms and toilets) and is supported by the WSP-WB and aims to replicate the approach elsewhere.

The following conclusions were made from the workshops regarding existing payment systems for water services and

<sup>9</sup> EUWI-FWG, (2012). *Small-scale Financing for Water and Sanitation*

legal and organisational aspects:

1. Clear differentiation is needed between payments for water supplied for different needs, including domestic, industrial and irrigation water.
2. With regard to drinking water supply, it was recognised that payment is necessary and that tariff policy must consider social aspects with pro-poor provisions and in conjunction with related national schemes (e.g. poverty reduction strategies, development plans and smart subsidies).
3. Remedial measures are needed with respect to water leakage both in irrigation and water supply systems.
4. In some regions more priority should be given to financing water and sewage treatment and recycling.
5. Monitoring systems need to be improved to understand levels of financing and value for money related to quality and quantity of water supplied for different uses including irrigation networks and drinking water supply systems.

#### ***Funding allocations for water (transfers)***

In many countries in Africa water and sanitation is financed by donors through official development assistance (ODA) transfers at between 60 and 83% of the total finance suggested by some participants. There was a consistent message from participants that it is as important to address the inconsistent allocations and lack of absorption capacity as it is to increase the financing available. It was suggested that donors use basket funding to pool their funds: thus reducing irregular year-on-year budgets, administration and programme delays and extra costs; and smoothing out annual peaks and troughs.

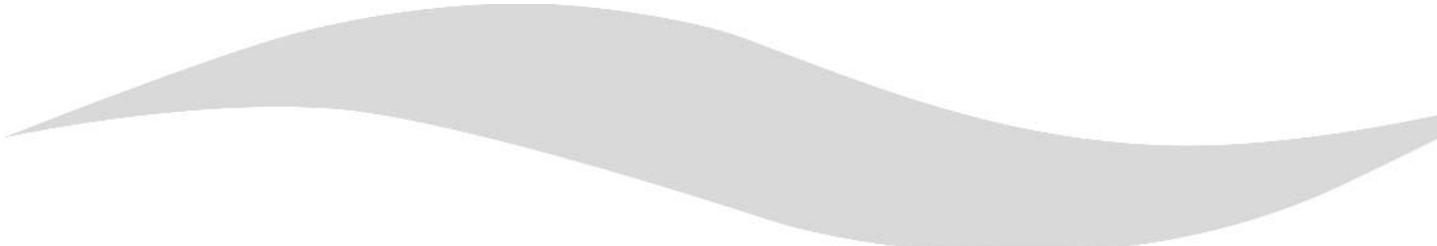
Financing water has to be prioritised at a national level. In Africa ODA is the major source of finance and it was recognised that this was not sustainable. Countries need a clear programme to shift the focus from ODA transfers to other financing sources, mainly government budgets (tax) and most importantly from users through well-designed tariffs. This is already happening in many regions but needs more leadership from policy makers.

However, for water resources management there is a strong argument for the use of ODA to support government budgets as the scope for raising finance from revenues is more difficult. Expenditure for management reforms and resources assessment can be an important contribution from donors.

#### ***Government budgets (tax)***

Several workshops in Africa and Latin America illustrated the inconsistency of government budget allocations for water and sanitation. Participants raised the issue of the irregular flow of finance and the mismatch between project and financing cycles. Even though budgets are considerably less than that needed to meet demands and fulfil policy objectives, these limited budgets are often underspent. For example, several countries in Central Africa reported that the actual spend was about 30% of the budget allocation. Examples were also given of wide fluctuations in budgets year-on-year (e.g. 0.3% of the national budget one year and 2.5% the next) which makes it impossible to plan and use the funds effectively. Moreover, budgets are often approved half way through the financial year giving limited time to use the budget effectively. A lack of implementation capacity within government bodies, limited information about available funds, and excessively bureaucratic procedures for utilising the funds were cited by participants who concluded that financing needs to be accompanied by legal and institutional reforms and improved governance.

The importance of loans from IFIs, banks and other commercial sources (private finance) was stressed by participants for infrastructure for key water-use developments such as agriculture and energy. The workshops also stressed that such investments have to be paid back from either tariffs or budget allocations (taxes) and this has to be designed prior to investment to avoid unsustainable levels of debt. Investments by IFIs in water supply and sanitation infrastructure was a policy priority in many regions, driven by meeting the MDG water and sanitation target, and the workshops discussed the difficult balance of providing essential service and paying for the loans and making the necessary tariff reforms.



An expansion of sources of financing to obtain less dependence on state budgets was highlighted. This included more attention from local investments and household contributions as well as improving the enabling environment for private sector participation. More efforts for achieving a better understanding and building communication channels between public and private sector are needed to identify potential partnering opportunities in all water uses, as clearly identified in most of the workshops and supported through follow-up events. The use of different instruments such as guarantees and blending funds from different sources should be used more.

### 5.3 Mobilisation of finance

Considerable support has been provided by the GWP since 2003 for IWRM planning. This has identified key actions in many countries aimed at water security and provides a basis for priority setting for water resources management actions. However, the workshops indicated that more work is needed to turn plans into fundable programmes.

A consistent theme in all workshops was the need for better project preparation including effective cost-benefit analysis for sustainability of water-related projects. At present trust funds for project preparation available from most IFIs are underutilised for water projects, and water ministries and their support agencies need to rectify this to ensure more good quality projects are available for the finance that is available from IFIs.

The lack of continuity was raised by many, and more initiatives are needed that capitalise on proven progress and pilot studies. For example, support should be given to investments that follow-up on projects which can also help strengthen public institutions (rather than new consulting arrangement that disappear at the end of each project).

Reform measures need to be championed and followed up, even if only partly successful, rather than turning to new ideas and fashions.

It was recognised that there is a clear relationship between good governance, transparency and accountability, and that this attracts investments by reducing risk. Consistent support to improving governance is thus a valuable long-term process for accessing finance.

In several workshops the need for engaging with multi-lateral development finance institutions was highlighted in order to improve knowledge and understanding between financiers and applicants for funding. In particular mechanisms and instruments are needed that can overcome financing of programmes or projects on trans-boundary waters.

The workshops were focused at the regional level with spin-off country meetings that relied to a large extent on local funding. There is a high demand for more follow-up activities at national level where knowledge and capacity on financing matters are lacking and this is a potential task in the next EUWI strategy. This could also be followed up by GWP where they are supporting countries in a multi-donor programme for water, climate and development. The national workshops should be more focused on specific country priorities, provide practical training on financing mechanisms and guidance on developing financing strategies.

Workshop participants called for a more operational interaction between national authorities and IFIs/donors on project financing. Misunderstanding and confusion seem to exist on both sides, e.g. countries' understanding of the priorities that IFIs set and IFIs' understanding of national capacities to address their prerequisites. Furthermore, regional dialogue and more sharing of experiences would be beneficial.

## 6. Recommendations

The key findings of the programme of financing workshops enabled GWP and the EUWI-FWG to gather solid experience that suggests four key strategic approaches to address future initiatives to build capacities and improve water financing. The awareness, capacity building, knowledge management and alliance-building activities mentioned below aim to develop synergies towards the promotion of water-financing instruments and the development of financing strategies.

### 6.1 Awareness and political will

The regional workshops are the beginning of a process to increase awareness and political will and must continue if water service and water management needs are to be met. In particular, understanding at the regional level needs to be developed further at country level and adapted for specific local conditions. It is essential that water officials and users understand that water services are not free and have to be paid for if an adequate service is to be delivered to all. Bringing together government officials and experts with water and finance expertise through an informal mechanism will continue to build bridges between water management/sanitation and finance officials and experts. Water professionals and officials will also learn to argue the case for financing water in terms that are understood by non-water officials.

- The GWP network at regional and national level will continue to promote and facilitate cross-sectoral dialogue and consensus building, through information required to lift the quality of the debate, and the possibility of stimulating meaningful and open dialogue through its neutral multi-stakeholder platforms. GWP will intensify its effort to open up and reach out to finance officials and other major water-using sectors such as agriculture and energy.

- GWP will develop policy briefs advocating for countries to increase their budget allocations to water resources management and development.

### 6.2 Capacity building

The workshops clearly showed the importance of building capacity in financing in order to attract additional financial resources from different sources and to make better use of the finance presently available. Without becoming 'bankers' water professionals need to understand the tools and sources of finance available for water and sanitation so they can fill the funding gap using different instruments. Future initiatives need to especially target government administrators to provide them with the skills to access funds. Careful consideration should be given to the kind of capacity-building support that needs to be provided in order to foster the use of different financial and economic instruments.

- Based on demand from the regions, additional funding will need to be raised to build on the cross-sectoral dialogues and workshops. Additional funding will also be required for training in strategic financial planning, water governance and institutional strengthening issues that will contribute to improved access to financing for water.
- As part of its multi-donor Water, Climate and Development Programme (WACDEP) GWP will ensure that financing issues are addressed and that climate adaptation and climate funding includes resources for water resources management.

### 6.3 Knowledge management

To share knowledge and experiences of different types of finance by highlighting new mechanisms and explaining linkages between finance and good governance, the range of knowledge products has to be improved and they also need to be more focused on practical help to countries and not just academic texts.

- The EUWI-FWG will complete a series of publications in the spring of 2012, including: financing water resources management in Africa (based on country case studies); pricing of water resources management for sustainability; and small-scale financing for water and sanitation in Africa. These will complement the existing EUWI-FWG publications.
- GWP and EUWI-FWG are supporting AMCOW in the development of knowledge products on water security and climate resilience funded through the Climate and Development Knowledge Network, which will include financing issues related to climate and adaptation funds.
- The GWP Technical Committee is preparing a background paper on the economics of water security. This responds to many comments at the regional workshops about the difficulty of convincing Ministries of Finance of the economic importance of financing water. The OECD is also looking into this topic.
- The GWP ToolBox will continue to build its library of case studies on good practice related to water financing, such as experiences that demonstrate enhanced budget efficiency by public agencies.
- To promote strategic financial planning in Sub-Saharan Africa a suitable methodology should be developed and made widely available to interested governments. A simpler form of the FEASIBLE model developed for the OECD in early 2000 should be developed using spreadsheets in lieu of computerised simulations together with a user manual. A modest budget of less than Euro 20,000 would suffice and ideally should be presented to the Africa Water Week in Cairo in May 2012 as an outcome of the work of the EUWI-FWG.

## 6.4 Strengthening partnerships and alliances

To reach more interested parties and develop synergies to optimise the use of resources it is essential to continue building alliances and partnerships on financing water.

- The strong alliance between GWP, EUWI and CapNet will be further developed to strengthen and target training on financing water.
- Opportunities will be developed to engage with regional economic communities and regional-level political bodies to build long-term political will. The GWP Regional Water Partnerships will build on their links with organisations such as the SADC, AMCOW, Central American Commission on Environment and Development and UfM, amongst others.
- The EUWI-Africa Working Group will follow up and arrange for further country level projects to develop strategic financial plans in Africa.
- The EUWI is developing a new strategy for the period 2012–2016. Under this strategy financing issues developed by the FWG will be developed further by the EUWI Regional Working Groups in Africa, Eastern Europe and Central Asia, Mediterranean and Latin America. The EUWI will also set out activities for improving coordination among member states, the European Commission and European Investment Bank on financing water, for example on blending grants and loans and improving the use of trust funds for developing water related regional projects.

