

EUWI Finance Working Group

Developing Financing Strategies in Water Supply and Sanitation

Note

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Strategies in Water Supply
and Sanitation

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List of Abbreviations and Acronyms

CEE	Central and Eastern Europe
DANCEE	Danish Co-operation for Eastern Europe
EAP	Environmental Action Programme
EC	European Commission
EECCA	Eastern Europe, Caucasus and Central Asia
EU	European Union
EUWI	EU Water Initiative
FEASIBLE	Financing for Environmental, Affordable and Strategic Investments that Bring on Large-scale Expenditure
IFI	International Financing Institution
ISPA	Instrument for Structural Policies for Pre-Accession
MDG	Millennium Development Goal
OECD	Organisation for Economic Co-operation and Development
PHARE	Poland Hungary Assistance for the Reconstruction of the Economy
PPP	Public Private Partnership
SEE	South and Eastern Europe
SMART	Specific, Measurable, Agreed, Realistic and Time-bound
SWIFT	Sector Wide Investment and Financing Tool
WSP	Water and Sanitation Program
WSS	Water Supply and Sanitation
WSSD	World Summit on Sustainable Development

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1 Introduction

On top of the agenda Financing strategies in water supply and sanitation (WSS) are on top of the political agenda when it comes to environmental policy making. This is true in the developing countries as well as transition countries in Europe and Asia.

There is now a broad consensus among developing country governments, many parts of the civil society and donors, that improving the governance of the water sector is a prerequisite for any successful reform of the water sector. The report of the Gurria Task Force, presented at the 4th World Water Forum in Mexico 2006, states that the significant financial needs of the water supply and sanitation sector can only be satisfied if, in addition to measures to increase the supply of finance, decisive measures to improve the demand - i.e. to strengthen financial planning capacity and project preparation - are undertaken.

Presently, five countries in Africa have done or are in the process of developing financing strategies in WSS (Kenya, Mozambique, Zambia, Egypt and Ethiopia). Furthermore, many African countries have made political statements on the need to increase financial provisions to WSS to meet the Millennium Development Goals (MDGs).

Since the late 1990's more than 25 financing strategies in WSS have been developed and implemented in the CEE, EECCA and SEE countries - some at the national level, others at the regional level. Further strategies are to be launched.

Aim of note The aim of this note is to provide information about financing strategies in WSS that are realistic and meet established development objectives - and in doing this explain what is required to prepare them. Therefore the three questions that this note addresses are: What is actually meant by a financing strategy in WSS? What are the stages of preparing, developing and implementing a financing strategy in WSS? And what are the major challenges when doing so?

The note deals with the preparation, development and implementation of financing strategies in WSS in developing countries and transition countries.

Target group The target group consists of WSS decision makers in the countries covered by the EU Water Initiative (EUWI) - e.g. senior government officials at national, regional and local levels responsible for the further development of WSS sector and officials working in water utilities. It is written in a language accessible to non-specialists so that it may be useful to others as well.

Authors The note has been prepared by Mr Michael Jacobsen and Mr Jesper Karup Pedersen, both COWI A/S, on behalf of the EUWI Finance Working Group. The original version has been somewhat reduced in size by the FWG Secretariat.

2 Rationale of Financing Strategies

Not straightforward	What is actually meant by a financing strategy in WSS? The answer to this question is not straightforward. It is closely linked to the exact rationale of financing strategies - and the exact rationale differs from one country to another country if they find themselves in different situations. In other words a financing strategy in WSS is not a panacea. Its definition and use depends on the problem (or problems) to be addressed.
International organisations	This section looks at how international organisations – specifically the OECD and EUWI, each concentrating upon different regions of the world - perceive financing strategies in WSS, highlighting the rationale. Having looked at how each of these perceives such financing strategies, an attempt is made to answer the question raised above.
2.1 OECD and "Environment for Europe" Process	
Far most experienced	The OECD is by far the most experienced international organisation with regard to financing strategies in WSS. It has promoted these since the late 1990's in the framework of the "Environment for Europe" process. Key results have been presented at several conferences ¹ and a policy brief, and several books have been published by the OECD in order to facilitate the further development of financing strategies in WSS. ²
Problem addressed	In its work, the OECD has succinctly formulated the problem to be addressed by financing strategies in WSS: "An important obstacle to achieving environmental goals in many countries has been the failure to adequately address the associated financial issues: the cost of achieving goals, how these costs can be minimised, and the challenge of matching costs with available resources." ³
Definition	Furthermore, it provides a summary definition of an environmental financing strategy: "An environmental financing strategy is a methodological framework for medium- to long-term strategic balancing of environmental and infrastructure service targets with available financing (...). The basic idea behind the environmental financing strategy concept is quite simple. There should always be a balance between the money needed to meet the target and the money available to do so". ⁴
SMART targets	When promoting environmental financing strategies the OECD pays much attention to the need to establish, what it calls SMART targets - e.g. targets that are

¹ The Almaty Conference in 2000, the 5th Ministerial Conference "Environment for Europe", held in Kiev, Ukraine, in 2003, and the Conference of EECCA Ministers of Economy/Finance, Water and Environment and their Partners from the OECD, held in Yerevan, Armenia in 2005

² See, for instance, OECD (2003a), OECD (2006a), OECD (2006b) and OECD (2006c).

³ OECD (2003a), p. 1.

⁴ OECD (2003b), p. 20. Similar definitions are provided in other OECD publications. Environmental financing strategies refer to financing strategies in environment sectors.

Specific, Measurable, Agreed, Realistic and Time-bound⁵. The reason is that only an environmental financing strategy with SMART targets may be incorporated into the public budget, monitored on a regular basis and evaluated.⁶

Focus

It follows that the focus is on matching costs with available resources and on cost minimization. The OECD methodology emphasises the focus on operational costs and the ability of users to pay the operational costs associated with a given service level. Most EECCA countries aim, at least in principle, at achieving full cost recovery through user charges.

The OECD methodology has been applied in several countries in the EECCA region, where for historical reasons targets were much more ambitious and thus much more costly than the available resources. At the same time, there were no (internationally) agreed targets. Thus variation of targets and service levels to match available resources as well as the variation in technologies to be used has constituted a key policy tool. It is important to note that the OECD methodology focuses at the strategic and programme levels and not at the project level.

2.2 EUWI and MDGs

EUWI

At the World Summit on Sustainable Development (WSSD) in Johannesburg in September 2002, the EU Member States and European Commission launched the EUWI, which is aimed at contributing to the achievement of the MDGs and WSSD targets for drinking water and sanitation within the context of an integrated approach to water resources management. Presently, the EUWI consists of four regional components (Africa, EECCA, Mediterranean and Latin America). In addition there are three cross-cutting working groups (Finance, Research and Monitoring/Reporting)⁷. In recent years the EUWI-Africa Component - in co-operation with the EUWI Finance Working Group and the Water and Sanitation Programme (WSP), an external partnership program of the World Bank - has promoted financing strategies in WSS in Africa.

MDGs

The EUWI-Africa Component pays much attention to the MDGs. One of its three development goals is to contribute to achievement of the MDG targets on water and sanitation.

Its working group on WSS highlights the following immediate objectives⁸:

- Increasing the demand for investment in water supply and sanitation for the poor.
- Strengthening underlying institutions, building capacity and making better use of existing human and institutional resources.

⁵ Frequently, the word "achievable" is used instead of "agreed". The word "agreed" emphasises the need of consensus building.

⁶ See sections 3 and 4 for further information on this.

⁷ See www.euwi.net for more information on the EUWI working groups.

⁸ <http://www.euwi.net/index.php?main=1&sub=1&id=125#12>

- Enhancing funding for the supply, management and development of water resources and sanitation.
- Improving co-ordination between the actors involved in water resource management.

Contribution of financing strategies

According to the WSP, financing strategies in WSS may contribute to meeting these immediate objectives by⁹:

- Testing the implications of different subsidy allocation principles/ harmonization of donor/government allocation principles.
- Testing the affordability of different service coverage targets at a national/regional level and thus assessing the possible degree of cost recovery and the needs and possibilities of cross subsidies between consumer groups.
- Considering the impact of market borrowing on operational costs, and testing the limits of possible market borrowing.
- Assessing the impact of providing for adequate, ongoing rehabilitation on the capital program as well as inadequate investments and their impacts on accelerated capital degeneration.
- Testing the equity of current public and budgetary allocations between sector management institutions.

Focus

In the context of developing countries and the MDGs, financing strategies in WSS focus on financial resource mobilisation, financial programming, affordability and also service coverage targets. The focus on financial resource mobilisation - not least from international sources - is a striking feature.

While targets are given by the MDGs, financial necessities mean that service coverage is still considered by the financing strategy. Similar to the case in the EECCA region, there is a strong emphasis on efficiency in choice of technology, operational costs and affordability. At the same time, due to the large role played by donor funding (in relation to investment expenditure) and the crucial need for counterpart funding and sustainability of operations, financial programming has to be key to financing strategies in Africa.

2.3 Definition of a Financing Strategy in WSS

Definition

It is possible to define a financing strategy in WSS as:

A time-bound plan for sustainable financing of capital investments and O&M costs in WSS adopted by a national, regional or local government and embraced by major stakeholders involved in WSS management and operation in

⁹ WSP (2007c).

the country, region or municipality in question with a view to achieving a set of targets that are SMART.

"Sustainable financing" implies that expenditures (investment expenditure and operation and maintenance expenditure) are balanced with revenues (from public budgets, user charges and loans/grants from domestic and international sources).

3 Process of Preparation, Development and Implementation of Financing Strategies

Not only strategy development

Developing financing strategies in WSS is not only about strategy development. It is also about strategy preparation and implementation. This section deals with the process of preparing, developing and implementing financing strategies in WSS. The key issues to be addressed are highlighted.

3.1 Phase 1: Preparation

Need acknowledged

The very first stage in the whole process is about exploring the extent to which the need to strengthen financial planning capacity and project preparation in the water sector is acknowledged in the country in question. Is it likely that strategy development will be successful and followed by strategy implementation? Only if countries and partners (e.g. IFIs and/or donors) can say "yes" to this question, should the process proceed.

The key issues to be addressed at this stage are the following:

- Are key stakeholders in the country committed to strategy development and implementation?
- What is the exact rationale of the financing strategy? For what purpose and for whom is it that the key stakeholders want such a strategy?
- Are there sector policies, development policies which set WSS goals (national and/or MDG)?
- What are the major revenues? Are there any plans to increase certain revenues - e.g. user charges?
- Is the institutional framework more or less in place? Or are there serious problems with duplication between different government bodies?
- Has any preparatory work been carried out providing, for instance, comprehensive information and data about the water sector? Are there any government documents providing directions for development of the water sector? Are data available? If yes, where?
- Are the targets given or not? If they are given, how strongly are they given? Do they follow from some international convention or protocol?
- To what extent is there a technology choice?
- Will the financing strategy concentrate upon urban and/or rural areas?

- Are there any plans for private sector involvement? In the short term or in the long term?

Set-up of Steering Committee

This stage should not be underestimated. The key goal is to ensure a proper set-up of the Steering Committee, real involvement of key stakeholders in the further work on strategy development and clear lines of reference and communication between all parties involved. In other words, it is about ensuring a good start for a constructive policy dialogue to be carried out throughout strategy development and implementation (Phases 1 and 2). The stage is concluded with the successful execution of the 1st meeting of the Steering Committee, which, among others, is aimed at reaching a firm agreement on the objectives and outputs of the further work, overall methodology and approach to be pursued, roles of the various parties involved, and detailed work plan.

It is important that the Steering Committee consists of high ranking decision makers. If not, the Steering Committee may not make firm decisions. To facilitate the whole process it is likewise important that sector experts from government bodies, public utilities and/or research institutes in the country are actively involved in strategy development - i.e. they work together with the consultant on an ad hoc basis preparing certain outputs. This can be achieved by establishing one or more working groups. Each working group concentrate upon a certain topic - e.g. social protection measures - and consists of appointed, well-respected sector experts from government bodies, public utilities and/or research institutes in the country. The working groups, as well as consultants engaged to provide technical assistance, are subordinated and thus refer to the Steering Committee.

Terms of Reference

Carefully prepared Terms of Reference are important to the success of the further process and the partner country should pay much attention to preparing them to provide clear guidance to the consultant entrusted to facilitate the process.

3.2 Phase 2: Development

Baseline scenario

This stage is the responsibility of the consultant engaged to develop the draft finance strategy, and a working group should provide input - typically, in terms of advice on data collection, assessment of forecasts made and peer reviewing of draft documents - to the work of the consultant. It is about a description of the current situation in the water sector, including tariff setting, and the subsequent development of a baseline scenario.

A baseline scenario depicts a future situation with unchanged service levels - e.g. 20 years ahead. What "unchanged service levels" actually mean needs to be clearly defined. A reasonable definition is that that coverage ratios for water supply of different types (piped and household connections, piped with kiosks, hand pumps, etc.) and also for sanitation of different types (wastewater collection and treatment, septic tanks, improved pit latrines, etc.) will remain unchanged. In such a baseline scenario, the only cost driver is population growth. Since population growth - in particular in urban areas - may be significant, the baseline scenario is still likely to involve a significant increase in costs.

The baseline scenario should be presented and properly adopted by the Steering Committee at its 2nd meeting (or its 3rd meeting in case the 2nd meeting is aimed at getting the approval of the Steering Committee of the detailed methodology and approach regarding the description of the current situation and baseline scenario). It is important that all members of the Steering Committee fully agree with the description of the current situation and, not least, the baseline scenario.

The set of policy variables that are concentrated upon include the following:

- Water sector development targets, including priorities and deadlines for investments.
- Institutional set-up and, in particular, responsibilities of various institutions in relation to service provision, investments and operation and maintenance.
- Level of user charges - and, not least, increases in user charges taking into account outcomes of accompanying affordability and willingness-to-pay analyses.
- Other domestic revenue increasing policies such as increased collection rates, reduction of water losses due to theft and increased support from public budgets in the short to mid term.
- Level of support from IFIs and donors - broken down by investment support and operation and maintenance support.

The key issues to be addressed at this stage are the following:

- Do the development scenarios take into due account all investment and, not least, operation and maintenance costs?
- Are the different levels of user charges realistic and affordable? How will they affect different income groups - in particular, in the short-term? Here it is important that dogmas related to user charges are carefully examined and re-examined. Often users pay very much for informal service provision and are willing and able to pay more than current user charges for formal provision. In fact, willingness-to-pay can be higher than the frequently used affordability thresholds (3-5% of household income).
- What are the trade-offs between policy variables? These trade-offs - in particular, trade-off between water sector development targets and user charges - should be highlighted in the development scenarios.
- Which development scenario is possible to build consensus about?
- Which complementary policies and measures - e.g. specially designed social protection measures - may be needed in order to build consensus? Here it is important to develop a draft policy package - i.e. a coherent mix

Final financing strategy

of policy tools such as revised institutional set-up, new tariff-setting procedures and new social protection measures - to promote consensus building.

This stage, which marks a logical continuation of the previous stage on development scenarios, is the responsibility of the consultant subsequent to guidance by the Steering Committee (if need be, several bilateral meetings with members of the Steering Committee and, especially, its Chair are held during this stage). The working groups may provide valuable input so as to ensure that the draft financing strategy in WSS and later the final strategy, which is the ultimate output of this stage, enjoy the full support of the key stakeholders. The final financing strategy is presented in a document presenting a feasible and affordable scenario to achieve the agreed water sector development targets, a set of investment priorities (or even an investment programme) and also a policy package providing a set of agreed complementary policies and measures. "Agreed" means "endorsed by all members of Steering Committee". The scenario should be feasible in the sense that it includes neither a financing gap nor a cash flow gap - and it should be affordable to households, industries and public budgets.

The key issues to be addressed at this stage are the following:

- Once again: Are targets actually SMART?
- Does the cash flow provided meet the cash flow needed year by year? To some extent, a financing strategy is a cash flow analysis and care should be taken to analyse the outcomes year by year in order to assess whether the set targets and investment costs can be financed.
- Does the policy package adequately address foreseen barriers to subsequent implementation of the financing strategy?
- Do the financing strategy, investment priorities and policy package really enjoy the full support of all key stakeholders, including the Ministry of Finance?
- How to ensure dissemination of the financing strategy in WSS to the general public and also municipalities, public utilities and enterprise sector?

3.3 Phase 3: Implementation

Implementation Plan

It is the responsibility of the key stakeholders - with assistance from the consultant - to develop the Implementation Plan, which shall serve as an operational tool for the institution (or institutions) overall responsible for strategy implementation. It typically consists of a process action plan highlighting actions, responsible bodies and deadlines and also a list of priority investments.

Most important with regard to the Implementation Plan is to ensure that it in the short term is properly integrated into the budgeting process - especially, at the national level (in the EECCA countries, the public budget at national level is the only major financial resource available for investment support in WSS).

The Implementation Plan should be approved by the Steering Committee - or a new body established to ensure the implementation of the financing strategy.

The key issues to be addressed at this stage are the following:

- How to translate the financing strategy in WSS into rolling, medium term investment programmes replacing the annual programmes many developing countries and transition countries currently follow?
- How to clarify responsibilities of municipalities and utilities - e.g. through performance based contracts?
- What should the monitoring and evaluation mechanism look like - and how to institutionalise it?
- How to establish solid working relations with IFIs and donors interested in supporting the strategy implementation - one way or the other?

3.4 Toolbox

Many tools

Many tools each serving a certain purpose may be applied in the process of preparation and, especially, development and implementation of financing strategies in WSS. They are all to be found in the toolbox, which the IFI, donor and/or consultant bring into the process, they complement each other, and they facilitate the policy dialogue being carried out among the key stakeholders.

Not just a technical exercise

In his context it is important to keep in mind that the application of a tool, no matter which, is not just a technical exercise. It involves a policy dialogue among all relevant stakeholders so as to build consensus and ensure a close link between strategy development and implementation. Consequently, it is important that the consultant pays much attention to, not only the presentation of findings and feedback from the key stakeholders, but also the possibility of involving sector experts from government bodies, public utilities and/or research institutes in the country actively in the application of the tools. Here the abovementioned working groups do have an important role to play.

FEASIBLE

FEASIBLE is a computer-based tool which serves to consider the expenditure needs (in terms of investment and operation and management expenditure needs) of meeting specific and time bound targets and also the financing hereof by means of grants, loans, user charges and public subsidies. It covers water - i.e. water supply, wastewater and sanitation - and also solid waste sectors.

The tool uses generic cost functions to generate both investment and operation and maintenance expenditure needs based on inputs describing the existing physical infrastructure and the future physical infrastructure, which will be needed to meet the targets. The tool encourages the user to adapt the cost functions to local relative prices, but includes default values if such information is not available. The tool also encourages the user to specify the infrastructure and infrastructure needs in considerable detail and for a large number of regions (or municipalities). Thus,

FEASIBLE may support the development of a fairly detailed investment programme to be included in the Implementation Plan.

The tool allows the user to specify terms and conditions for market borrowing and calculates debt service. Furthermore, the tool allows the user to compare user charges (for each household user group defined) with the household budgets (for the group) thus facilitating an easy consideration of affordability.

The outputs of the tool come in four categories: 1) technical information; 2) expenditure needs; 3) financing; and 4) financing gap. Data for each category are provided on a year by year basis and with breakdowns for sub-sectors and regions (or municipalities). Thus, the tool facilitates an iterative process of matching the expenditures required to meet set water development targets with available finance. In other words it facilitates the development of the baseline scenario and development scenarios in the process of strategy development.

FEASIBLE was developed by COWI A/S under supervision of the OECD and with financial support from DANCEE. It is available on the OECD website.

SWIFT

SWIFT is a spreadsheet-based tool which serves to compare the expenditure needs (in terms of investment and operation and management expenditure needs) of meeting specific and time bound targets with the financing hereof. It covers the water supply and wastewater sectors.

The tool is composed of five modules, titled "Sector Definition and Target Setting", "Public Finance", "Sector Development", "Service Delivery" and "Policy Scenarios". The Public Finance Module is specified in great detail allowing the user to specify (and follow) financial flows between institutions as well as to specify budgets for different mandates within a certain institution. It also specifies regional allocations of funds for investment expenditure and operation and maintenance expenditure, respectively. The Sector Development Module details the costs of set water development targets and compares these to available finance. The Service Delivery Module estimates costs and revenues associated with meeting user defined coverage targets. The tool relies on user input expenditure (unit costs) for both investment and operation and maintenance expenditure. The appropriate expenditure may be generated based on a detailed costing methodology developed by PEMconsult for WSP.

The tool encourages the user to specify targets in considerable detail and for a large number of regions (or municipalities). Thereby, a fairly detailed investment programme to be included in the Implementation Plan can be supported by the tool.

The outputs of SWIFT are financing requirements and financing availability - and hence financing gaps - shown along a large number of variables (institutions, regions, investment expenditure, current expenditure, etc.). The Public Finance Module specifies terms and conditions and projects loan service. In this way the tool facilitates an iterative process of matching the expenditures required to meet given targets with available finance and also the incorporation of the financing strategy into public budgets during strategy implementation.

SWIFT has been developed by the WSP in response to demand from African governments with financial support from the World Bank and EUWI Finance Working Group.

4 Major Challenges

Four major challenges It follows from the previous section that the number of key issues to be addressed in the process of preparation, development and implementation of a financing strategy in WSS is huge. Likewise, it follows that it is of utmost importance that these are properly addressed. If not, it is unlikely that the strategy will ever become more than yet another report for the shelves. This section highlights four major challenges to the parties involved - challenges that have to be overcome to achieve a realistic strategy that enjoys full support.

4.1 True Policy Dialogue

Gathering consensus and ownership The process of developing of a financing strategy in WSS is, when all comes to an end, nothing but a policy dialogue aimed at creating consensus and ownership of the strategy among the key stakeholders represented in the Steering Committee. Consensus of the strategy implies consensus on, among others, water sector development targets, feasible scenario to achieve the set targets and how this scenario may realistically be financed, whereas ownership of the strategy implies that the key stakeholders actually consider the final strategy their own strategy - not the strategy of IFIs, donors or consultants.

Thus, a major challenge is to ensure a true policy dialogue actually takes place.

Iterative process Finally, it's important that the process becomes a true iterative process - especially, at the stage of developing the development scenarios. The number of iterations should be sufficient (rather too many, than too few), parties involved should be responsive to feed-back (or simply questions, doubts and concerns), and calendar-time needed should be provided. Only in this way is it possible to get all key stakeholders well on board and get an ownership feeling.

4.2 SMART Targets

Cynicism Another major challenge is to ensure that water development targets are actually SMART. In case SMART targets are not applied, the process of development and implementation of a financing strategy in WSS will inevitably come to an end - sooner or later. Most important is that unrealistic targets will breed cynicism and undermine the credibility of the whole process - and also the credibility of all parties involved, including IFIs and donors.

Policy considerations Certainly, the parties involved shall and will take into consideration relevant policy considerations - such as national development plans, MDGs or water related EC Directives - when it comes to target setting but as a rule the targets following from these policy considerations are not SMART. That is, they have to be translated into SMART targets as part of the policy dialogue. Often, it is anything but an easy task because it necessitates some changes in the officially set targets, including clarifications that may be problematic from a political point of view insofar as they make the underlying priorities a lot clearer.

Devils advocate Throughout the process it is important that the consultant plays the role of the devils advocate whenever it comes to target setting. That is, it is the duty of the consultant to keep asking: "Are the water development targets SMART?"

4.3 Solid Tools

Not process only Even though the ultimate key to a successful policy dialogue - and hence a realistic financing strategy in WSS that enjoys the full support of all key stakeholders - lies in the process rather in the tools applied, it is of utmost importance that solid tools are applied and key stakeholders are fully convinced that solid tools are applied. It goes for all tools but it is not least important with regard to the tools applied when developing the baseline scenario and also development scenarios. If members of the Steering Committee do not believe in calculations made - or think input data are wrong, hence frightening that there is a case of "garbage in-garbage out" - the policy dialogue will get sidetracked.

Essential In sum, solid tools - and hence good data and information - are essential. And it is a major challenge to all parties involved to ensure that solid tools are applied.

4.4 Proper Implementation

Not self-fulfilling prophecies Financing strategies in WSS are not self-fulfilling prophecies, even though they enjoy the full support of all key stakeholders and have been properly approved. They need to be implemented. At the same time barriers to the strategy implementation are plenty. Thus, a major challenge is to ensure that financing strategies in WSS are not only developed but also properly implemented.

Monitoring Monitoring seems to be an effective tool to ensure strategy implementation. It is to be carried out on a regular basis - e.g. on an annual basis - and it has to be acknowledged by all key stakeholders that monitoring differs from control. That is, deviations may occur - for good and for bad reasons - and the answer to such deviations is not to punish a certain institution but rather to find out which changes to make in the Implementation Plan. Many more human resources are required for a certain ministry? Maybe some regulation is out-dated and, in fact, contradicts parts of the policy package approved? Maybe some heavy-cost investments should be postponed for a year or two? Changes may be made.

Ministry of Finance It is vital to have the engagement of the Ministry of Finance throughout strategy implementation - as it also is throughout strategy preparation and development. No financing strategy will ever be implemented without, at least, the consent of the Ministry of Finance.

5 Summary

- Rationale differs... The rationale of financing strategies in WSS differs from developing countries to transition countries - and hence from one international organisation to another. This should not take anyone by surprise. In the developing countries the strategies are perceived as vehicles for achieving the MDGs through, among others, improved financial resource programming. In the transition countries they are perceived as vehicles for upgrading the infrastructure, matching costs with available resources and introducing the full cost recovery principle.
- ... but only a little However, there is no need to exaggerate the differences in this respect. There are, in fact, many common features between the developing countries and transition countries with regard to challenges in the water - e.g. funding will continue to come from national funding sources mainly. Furthermore, there is a high degree of agreement about the purpose of developing financing strategies. Consequently, it is possible to put forward a definition of financing strategies in WSS that is valid in both developing countries and transition countries.
- Three phases Developing financing strategies in WSS is not only about strategy development. It's also about strategy preparation and implementation. The process of preparation, development and implementation financing strategies in WSS consists of three phases and several stages such as set-up of Steering Committee, development scenarios and Implementation Plan. At each stage it is important that certain key issues are properly addressed by the parties involved. Furthermore, selected tools within a toolbox are used at different stages.
- Four major challenges The whole process contains numerous challenges that have to be overcome to achieve a realistic strategy that is well-anchored in the country, region or municipality in question. It is possible to point out four major challenges - namely, the need to ensure that a true policy dialogue actually takes place, the need to apply SMART targets, the need to make use of solid tools, and the need to ensure a proper implementation of the strategy.
- Advantages If the challenges are properly dealt with financing strategies in WSS offer a wide range of advantages. Among these are the following:
- They support the introduction (or further strengthening) of good governance. Here it is important to keep in mind that good governance - i.e. right policies and regulations - are just as important as finance to improve the situation in the water sector.
 - They facilitate a change in the minds of decision-makers - e.g. from focus on wish-lists to Santa Claus to focus on realistic targets.
 - They assist in establishing a regulatory framework for financial sustainability of the water sector and promote cost-effective use of resources.

- They offer a way out of the vicious circle of financial unsustainability and declining service provision that many countries are caught in.
- They contribute to the development of road maps for achieving the water-related MDGs.

In summary

In summary, financing strategies in WSS may support policy dialogues and the development of a consensus in developing countries and transition countries about the need to strengthen financial planning capacity and project preparation for the benefit of their citizens.

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