« The role of aid in achieving the MDGs: a sector perspective »

ODI event in the New bridges, future directions:
Meeting the challenges in water and sanitation
(presentation by Maurice Bernard and Armand Rioust de Largentaye)
1. Accra Forum focused on applying the Paris Declaration at sector level

2. ODI event to debate progress at sector level

3. What lessons for water from other sectors (health, education, agriculture and roads)?
Key questions for the session

1. How do challenges and opportunities differ between sectors?
2. What progress on ways to measure sector aid effectiveness?
3. How should links between aid and development be made clearer?
Why an infrastructure study on aid effectiveness?

- to prepare the Accra Forum on Aid Effectiveness
- only one « tracer sector » (health) initially considered
- concern about « one size fits all » (budget support)
- each participant to contribute two case studies,
  - one large-scale centrally planned infrastructure,
  - one decentralized infrastructure.
- AFD contributed studies on Ghana rural water and Senegal urban development
  - other case studies on AFD web site
Infrastructure Study Findings

- Paris principles (ownership, alignment, harmonisation, results, mutual accountability) do apply, especially:
  - ownership
  - capacity development (ownership) and use of local systems (alignment)
- sector-wide approach (SWAp) does not necessarily translate into sector budget support
- project approach applies, especially for large projects
Run-up meetings to Accra

- Round table 8 (aid effectiveness in sectors), June 2008:
  - When are sectors ready for budget support?
  - How to accept risk?

- Infrastructure Study: debate with local authorities (Accra, July 2008)
  - African case studies: decentralized infrastructure
  - Is Uganda closest to sector budget support?
  - Uganda stresses strength of Ministry of Finance (like Ms. Welle!)
Accra Forum: Round Table 8

• One size does not fit all
  – Each situation deserves optimal financing modality
• Project approach continues to apply to large scale infrastructure
• Yet donors need to take more risks and accept local systems (*leaks appear only when water is fed into the pipes*)
• Ownership (as well as loan financing) is weakened by slow economic growth
What is specific to the w&s sector

- Finance necessary but not sufficient condition to achieve MDGs: good governance is required in a complex, fragmented multi-actor and highly political sector

- Increasing finance from the three basic sources of revenue 3 Ts (tariffs, taxes, transfers) is key to financial sustainability and accessing capital and financial markets: Financial realism,

- Hard policy choices to be made: coverage and service level targets, mix of basic revenue sources (3Ts) and their use, trade-offs on expenditure side (urban/rural, water/sanitation,...)

- Capacity development is critical and needs to be supported by ODA

- Sector performance and aid effectiveness measurement is based on outputs (access) not
Complex Institutional Set-up and Governance issues in Water & Sanitation

- **National Governments**
  - Institutional set up, strategic financial planning, service standards, corruption

- **Regional / Local authority**
  - Regulation, Utility Contract, Performance, service targets

- **Utility**
  - Asset management efficiency
  - Customer contract

- **IFIs, Banks, Private Sector**
  - Loans, guarantees, bonds, equity ...

- **CAPEX**
  - Sector planning, standards

- **OPEX**
  - Operational efficiency

- **Service Regulator**

- **National Regulator**

- **Charity ODA**

- **Customers**

- **Tax Payers**

- **Legal & Financial environment**
Financial Flows to Water & Sanitation

Sources of revenue
- Cash in
- Revenue

Inflows
- Reimbursements

Leverage financing

National Governments

Regional / Local authority

Utility

Customers
- Tariffs

Tax Payers
- Taxes

IFIs, Banks, Private Sector
- Loans
- Guarantees
- Bonds
- Equity

CAPEX

OPEX

Charity, ODA
- Transfers
Applying the Paris Declaration (1)

Budget support requires hard policy choices already made (realistic sector and financial plans); appropriate institutional set-up and sector organisation; good governance and capacity at all levels…. Not yet there in most countries =>

- Focus first on sub-sector level
- Enable ownership (capacity building)
- Leverage on sector policies (encourage, influence and support policy transitions)
- Impose discipline on donors
- Prepare alignment
Applying the Paris Declaration (2)

• Harmonized co-financed programs / basket funding:
  – Scope: sub-sector focus, output based approach
  – Ownership: definition and implementation under the responsibility of the utility, disbursement by advance tranches, ex post control (financial and technical audits)
  – Capacity development: ownership/accountability on outputs makes capacity development acceptable
  – From harmonization to alignment: harmonized procedures (manual of procedures designed and customized to local context), pari-passu disbursements, joint supervision missions, …
  – Financial sustainability: develop capacity to attract finance from various sources (budget support, loans, grants) and their reliability / predictability
Examples of recent European initiatives

• EIB/AFD/FMO/EU funded 65 M€ Maputo water supply project: EIB Lead donor, blending of loans and grants, content defined ex-ante

• AFD/EIB/EU/BOAD 60 M€ funded SONES Pepam program: AFD lead Donor, blending of loans and grants, eligibility criteria, manual of procedures

• EU Neighbourhood Investment Facility (NIF):
  – KFW/AFD/EIB/EU funded 300 M€ IWSP Egypt (4 governorates delta region): KFW Lead donor, blending of loans and grants
  – KFW/AFD/EU funded 127 M€ Onas programme: KFW Lead donor, blending of loans and grants
Debate