Water & sanitation services

Enhancing Access to finance for Local Governments / Operators

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Enhancing access to finance for local governments / operators

- Financing water: the global viewpoint
  - Main financing flows
  - Loans: from supply to demand
  - Key recommendations for action
  - A major political move
Water challenges at the global level

- International water community
  - National governments
  - United Nations
  - Development banks

  Country government
  Local water authority
  Local water operator

Financing Water & local governments

- 3 high-level reports on water
  - “Camdessus” report: March 2003
  - “Gurria” report: March 2006
  - UNSG’s Advisory Board report: March 2006

  A recent UN report on water
Analysis of the situation

**Camdessus: all financing flows to double!**

- No material change in financing flows since Kyoto WWF3. (HDR2006 insists)
- Water management is a local issue
- Multilaterals have moved towards the “subsovereigns” but request “creditworthiness”

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**Financing water: the global viewpoint**

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Increasing financing flows?

- Public subsidies
- Aid subsidies
- Private equity
- Private borrowings
- Public borrowings
- Cash-flow from operation

To double water financing flows

- Long-term End payers
  - Water users
  - Taxpayers (Government budget)
  - Donors

- Short-term Cash facilities
  - Water Service Provider
  - Public banks
  - Private banks
  - Private investors

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Long term sustainability

End payers

Water users
Water Service Provider

Sustainable Cost Recovery

Water Investment

Taxpayers
Government budget

Donors

Sustainable Cost-Recovery

Defined by the Camdessus report in 2003

- Long-term cost-recovery policy anticipating needs
- Subsidies from public budgets secured well in advance
- Revenues from users as a group with cross-subsidisation to ensure affordability
“Water may be a human right, but someone has to pay the capital investments and cover the operating costs - either users or taxpayers and government.”

“Regulation and sustainable cost-recovery are vital to equity and efficiency.”

A 4-pages “Reference paper” describes Sustainable Cost-recovery

Link: [www.iwahq.org](http://www.iwahq.org) then search “sustainable cost recovery reference paper”
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Financing water: the global viewpoint

Main financing flows

- Loans: from supply to demand

Key recommendations for action

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Loans – supply side

A bank (multilateral, public or private) only lends if trust & creditworthiness

- strong balance sheet of local government only some happy few ones
  or
- strong balance sheet of water service provider: Sustainable Cost-Recovery
Shift from supply side to demand side

Gurria report

- “local governments” not “subsovereigns”
- to build financial products that suit the needs of water service providers
  
  better than

  to find WSPs that fit the current financial products of the banks

Loans – demand side

The needs of the local government and its operator

- Long-term loans
- Affordable interest rates
- Protection against currency risk

not available in many places

Loans in local currency?
Enhancing access to finance for local governments / operators

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Key financial recommendations

To improve access to finance by local governments / operators

- Central governments to have Water Action Plans  
- Local governments to have Water Action Plans  
- Develop Sustainable Cost-Recovery policies  
- Central governments to facilitate access to finance for local governments  
- Develop local financial markets  
- Long-term maturities with affordable interest rates  
- Develop pooling mechanisms

C = Camdessus    G = Gurria    U = UNSGAB    H = HDR2006
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A new voice in the international community

DECLARATION ON WATER BY MAYORS AND LOCAL ELECTED REPRESENTATIVES
At the Fourth World Water Forum, Mexico, 21 March 2006

We, mayors and local elected representatives, call on national governments, regional and international organisations and the United Nations to:

4.3. **Increase financing for local water and sanitation infrastructure to address the needs of poor populations lacking access to water and sanitation.**
Taxpayers & users

long-term loans

sustainable cost-recovery

affordable interest rates

central government to facilitate

use ODA as a catalyst

and mix funds

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