



Public Development Aid: new local financing tools

For a number of years now, the French Development Agency has been providing local authorities and local municipal utilities with financing requiring no guarantees on the part of their governments. This financing is often an opportunity to ask for greater financial independence for these entities.

The Phnom Penh water utility has made a spectacular turnaround in the post-war context, enabling it to achieve recognised legitimacy with its supervisory ministries and acquire a large degree of independence. This process is supported by the AFD by means of two direct loans.

The Moroccan municipal utilities should be initiating a process of contractualisation with their supervisory ministry, enabling their objectives to be clarified and granting them the means of attaining them. The AFD supports this process through initial non-sovereign financing from a funding institution to the Agadir utility.



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LONG-TERM FINANCING FOR SUSTAINABLE WATER MANAGEMENT

The Government is adopting a national framework to clarify long-term financing of all expenditures:

- It is organising the sector in order to optimise costs and save water resources
- It is distributing the financial burden so that it is spread over the long term for the taxpayers and made affordable to the users
- It is ensuring that the stakeholders in the sector have adequate financial resources to meet their responsibilities

Water financing in France: from State to user

The State and the local authorities heavily subsidised investment in the water and sanitation services until the early 1990s. Since then, financial equilibrium in the local water and sanitation services has been mandatory, under the "water pays for water" principle. The users now pay for all operating and investment costs concerning their drinking water and sanitation services. However, a number of investment subsidies (département¹, region) are still available. The State is increasingly placing emphasis on equalisation mechanisms between users as a means of mobilising solidarity over a wider area (basin or nationwide):

- the Fonds National d'Adduction d'Eau (national water supply fund) subsidised the development of infrastructure in rural areas from 1954 to 2004, by means of a State tax on all water bills;
- since 1964, the 6 Water Agencies, veritable "hydro-graphical basin water banks", collect fees on the water and sanitation bills and in return subsidise the water and sanitation investments essential for preservation of the resource. This arrangement is what financed most wastewater treatment plants.

1. Administrative region

The mobilisation of external financing from international solidarity funds and the financial markets is dependent on these fundamental elements.

AS the 2015 deadline approaches, the need to secure the financing essential to meet the MDGs is being keenly felt. This urgency is perceived even more strongly against the backdrop of the international financial crisis.

There are three main sources of financing for the water sector: the price paid by the user, the national budget to a large extent fed by taxes, and international solidarity transfers.

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It is through pricing and taxation that governments can act directly and effectively program long-term investment in the water sector

How to produce a financing strategy that is effective, fair and sustainable?

Adjusting and matching financial resources to financial needs in order to meet the objectives of the sector by:

- covering all the costs of the sector (investment, operation and maintenance),
- access to the service for all at an affordable price,
- preservation of the resource for future generations.

Stimulating dialogue in the sector through a broad, consensus-based approach implying that:

- all stakeholders share a common understanding of the issues, under the impetus of the authorities;
- all the constituents of the sector are taken into consideration (drinking water, sanitation, agricultural water, etc.) along with their interaction with other themes (urbanisation, industry, tourism, energy and so on).

Adjusting needs: doing more with less

The sector must set up an organisation and management system to promote operational and economic efficiency: network efficiency, optimised irrigation, payment of overdue bills. Steps are taken to ensure the independence of the various players and limit extra costs caused by corruption.

The quality of service and coverage objectives can be met gradually, depending on the financial constraints.

Resource security: priority to local solidarity

The budgetary resources of the developing countries are limited and compete with other sectors. The amount of Public Development Aid is also limited and sometimes uncertain. It is therefore important to give priority to financing of the sector by means of pricing, while bearing in mind the budget constraints of the households and setting up effective equalisation mechanisms between users and/or between services.

Aid, in the form of grants from international cooperation only account for 5% of the investment in the water sector in the developing countries. However, this is essential, particularly when destined for the poorest countries and the rural areas. Increasing this level of aid must therefore remain a priority for the wealthy nations.

Optimising allocation of resources: priority to fairness and public interest

Public subsidies must be dedicated primarily to investments with the greatest health, environmental and economic growth benefits for society.

International solidarity resources must concentrate on access for the poorest to the services by the poorest and on strengthening the skills base. They thus act as a catalyst and create the conditions necessary for the emergence of an efficient sector.

Urban hydraulics in Senegal: a successful financing strategy means the MDGs are in the process of being met.

In 1996, Senegal successfully undertook reform of the urban hydraulics sector. Accompanied by a major program of investment and a commitment by the State to raise prices, it enabled financial equilibrium to be achieved in the sector and considerable progress in the level of coverage. This success was consolidated by a number of investment programmes, the most recent of which, the PEPAM (Millennium drinking water and sanitation programme), aims to be a true strategic framework for attainment of the MDG by 2015, with the priority target being the poorest populations.

Reform of the sector was made possible by strong political will on the part of the Government and significant financial support from the funding institutions. The new institutional framework allowed a clear definition of the roles and responsibilities of all parties. Consensus-based planning of investments around a financial model shared by the public stakeholders and the private operator is the main reason for the success of the urban hydraulic sector. Since 1996, France has supported this process through financing from the French Development Agency (AFD).

Giving local authorities the financial means to meet their responsibilities

In countries which have opted for decentralisation, human and financial resources are often limited for local authorities to meet their responsibilities. It is up to the central authority to support this process by giving sufficient room for manoeuvre in terms of pricing, by setting up programming tools to facilitate dialogue between the various local stakeholders and by a means of specific taxing enabling the local authorities to levy the necessary long-term fundings.

Developing countries: some good practices

Central aim: ensuring cost recovery through a pricing system ("small balance")

