



9th World Water Forum, Dakar 2021



The 9th World Water Forum Kick-Off meeting

20-21 June 2019 in Diamniadio (Dakar, Senegal)

----------*-----*-----*-----*-----*-----*

Priority Area: Tools and Means

Topic: Financing

Concept Note

"Implement Innovative Financing Mechanisms for Water"

1. Introduction

The 9th edition of the World Water Forum that will be hosted by the Government of Senegal in 2021, themed "**Water Security for Peace and Development**", is characterized by innovative approaches for selection of discussion themes and organization of sessions.

Unlike previous editions that featured three major "parallel" processes: thematic, political and regional, the 9th Forum adopts an integrated preparation approach (based on multi-stakeholder consultations and exchanges around these four priorities: (1) water security, (2) cooperation, (3) water for rural development, and (4) the "Tools and Means" package including crucial issues of financing, governance, knowledge management and innovations.

This Concept Note provides a brief background to facilitate discussions at the Kick-off Meeting. It proposes an overall Financing topic framework for the Forum. The Note aims to trigger a discussion, elicit inputs, and comments from participants at the Kick-off Meeting. It is hoped that the elaboration of sub-topics will be firmed up during the Kick-off meeting and that organisations and/or regions will express interest to coordinate or lead the various sub-topics under the sub-theme. Besides identifying coordinating organisations, the contributors will be identified among the organisations.

2. Context

Water is critical for achievement of all the Sustainable Development Goals (SDGs), especially those on food security, healthy lives, energy, sustainable cities, sustainable consumption and production, and marine and terrestrial ecosystems. SDG 6 specifically reflects the critical importance of water in its own right, ensuring availability and sustainable management of water and sanitation for all.

Due to the importance of the water sector for economic growth and inclusive development, previous World Water Fora always discussed the subject of financing, either under a specific theme or as a cross-cutting issue. During the 8th Forum held in Brazil in 2018, financing was discussed as a cross-cutting topic devoted to the implementation of solutions.

The up-coming 9th Forum, proposes to discuss the subject of financing as a topic under the priority "Means and Tools" which also includes governance and knowledge management.

Taking in consideration the fact that the 9th World Water Forum will take place after the completion of the first period (2015-2020) of the 2030 Agenda for Sustainable Development, current trends call for concerted effort if the SDGs are to be attained.

3. Challenges

The global reports (*see some references in the bibliography*) carried out on financing water security for social, environmental & economic growth, indicate the existence of several challenges faced by the water sector:

Huge numbers of people without access to water and sanitation:

- ✓ Globally, more than 2 billion people, mostly in the poorest countries of the world, lack access to safely managed drinking water services, while 4.5 billion lack access to safely managed sanitation. In Africa, the number of people without access to improved sanitation is growing.

Inadequate prioritization of water security in national development plans:

- ✓ Water has not been placed at the required level in the past, compared to other sectors. The costs of neglect, which are cumulative, are now better understood than in the past. But several challenges remain, that vary between continents as well as between countries;
- ✓ The "water sector" has many dimensions, including water as a resource to be developed and managed for the benefit of all its functions and users, and water as a service, provided to its users. Both dimensions need financing, and both are deficient.

Huge investment gaps:

- ✓ The estimated cost of meeting the SDGs for drinking water and sanitation services is estimated at \$1.7 trillion, three times more than what has been invested in the sector to date. There are also large gaps

in financing of services provision of services for human consumption and for human health. Sewerage and wastewater treatment is even less developed. A large part of the sewage in most developing cities is not collected, but instead disposed of in unsanitary ways that endanger public health.

- ✓ The need for greater investment in water storage is likely to become even more acute with global climate change.
- ✓ Water for agriculture, deficient in serious respects, will be even more severely challenged in coming decades due to growing demands and changing consumption patterns.
- ✓ Investments in hydropower development in the different regions call for huge financing volumes.
- ✓ Industrial effluent—untreated, or not treated to proper standards—is a serious pollutant of rivers and coastal waters, causing environmental damage harmful to both humans and wildlife. Enterprises, both private and public, in developing and transitional countries, have very large backlogs of investment in effluent treatment.

Critical mismatch for promoting innovative financing mechanisms:

- ✓ Water sector investments have traditionally relied on public finance, with concessional finance playing an important role in developing countries. It is also important to note that economic growth has fostered domestic savings and nurtured financial institutions in many developing countries. The sector should look into ways to tap into these resources and institutions.
- ✓ Affordability constraints at household level.
- ✓ Limited availability of funds for domestic operators and Small scale water service providers (SSWSPs).
- ✓ Risk profile and difficulties in managing certain risks (e.g. political risk, foreign exchange risk).
- ✓ Lack of funds at decentralised, regional and transboundary level.
- ✓ Short tenor of available financing.
- ✓ Under-capitalized balance sheets.
- ✓ Lack of understanding by external lenders and investors.
- ✓ Lack of “bankable” projects” at all levels, including regional and transboundary basin level.

Improve the Integrated Water Resources Management Approach:

- ✓ Lack of funds for promoting water governance including policy and regulatory frameworks, data collection, weather forecasting, institutional capacity-building, afforestation, land use regulation, conjunctive use of surface and ground water, conservation measures, ecosystem management and pollution control.

4. Definition of the topic

The stakeholder consultation workshop for the preparation of the 9th World Water Forum that took place in Dakar in June 2018 proposed some direction for Financing, under the “Tools and Means” Priority. Stakeholders proposed

that the Forum process should interrogate issues including: **What should be financed? How should funding be made? Where are the gaps?**

Additional issues that emerged included:

- ✓ Addressing the theme of non-revenue water (50% losses in Africa)
- ✓ Establishment of audits to identify misused funds
- ✓ Create a connection between donors facing difficulties in finding viable projects, and beneficiaries who have difficulty identifying funding
- ✓ Increase funding for humanitarian assistance that remains relatively low
- ✓ Lower funding requirements for more inclusive participation
- ✓ Merge traditional and modern expertise to find solutions that are more adapted to local contexts and consider endogenous funding.
- ✓ Financial innovation must take into account the funding application process, and how funds are to be disbursed
- ✓ Consider multi-stakeholder partnerships, in addition to PPPs
- ✓ Rethinking financing in terms of pricing, sustainable and solidarity financing, and performance

To address this direction from stakeholders, the Forum will focus on the following intervention areas:

What should be financed?

- Financing the implementation of the water SDG's.
- Financing for water governance.
- Financing for water infrastructure.
- Financing the adaptation to climate change.
- Financing water development in fragile states and emergency context.

How should funding be made?

The 9th Forum will focus on the issues relating to the implementation of the innovative financing mechanisms to accelerate the development of the water sector. The discussions will focus on the mechanisms to be used for funding activities in the different intervention areas.

Innovative financing is linked to the development of two important trends at international level: i) an increased focus on programs that deliver results; and, ii) a desire to support collaboration between the public and private sector.

Innovative financing instruments complement traditional national and international resource flows — such as central and subnational budgets, aid, foreign direct investment, and remittances — to mobilize additional resources for development and address specific market failures and institutional barriers.

Innovative financing is an essential tool as the development community strives to eliminate poverty, raise living standards, and protect the environment.

Where are the gaps?

The urgent need is to fill the financing gaps by addressing the obstacles to mobilize additional financial resources, by using conventional as well as non-

conventional and innovative financial mechanisms¹. Significant efforts have been made at global and regional levels in formulation of guidelines and recommendations for solving this issue of mobilization of additional financial resources. Among these frameworks and events are:

- The Report of the World Panel on Financing Water Infrastructure – Financing Water for All, published in 2003.
- The African Water Vision 2025.
- The OECD Studies on Water - Meeting the Challenge of Financing Water and Sanitation – Tools and Approaches, published in 2011.
- The Platform for the implementation of the Sendai Disaster Risk Reduction Summit.
- The OECD Annual Global Risks Reports of the World Economic Forum.
- The High Level Panel on Financing held at the 8th World Water Forum held in 2018 in Brazil.
- The Third International Conference on Financing for Development held in Addis-Ababa in 2015.
- The Conference of Parties (COP) process.

5. Expectations from the Kick-Off Meeting

The main objectives to be achieved by the kick-off meeting include, among others, to:

- Initiate discussions on the sub-theme, get inputs on the proposed issues.
- Propose contributors for finalization of the Concept note.
- Setup a lead team for the elaboration of the Forum’s key financial document(s) guided by the present Concept Note.
- Agree on the road-map for the next steps.

6. The essential results expected during the Forum

- Main innovative mechanisms for financing the water sector development and the modalities for their implementation are identified.
- The conditions for creating enabling environments and capacities for increased funding in the water sector are identified.
- Potential regional and/or country assessment and reporting on funding needs, mechanisms and roadmaps.

7. The methodological approach and next steps

To achieve the results highlighted above, the following three-tiered approach is proposed:

¹ Specifically for the water sector, the following innovative financing mechanisms have been identified: i) Blended financing, ii) Repayable financing, iii) Micro-finance, iv) Output-based aid, v) Guarantees, vi) Risk insurance, vii) Devaluation backstopping facility, viii) Local-currency financing, ix) Revenue agreements, x) Municipal bonds, xi) Pooled funds, xii) Revolving funds, xiii) Bond banks, xiv) Instruments to increase sub-sovereign lending, xv) Equity contributions, xvi) Convertible loans and xvii) Project preparation facilities.

Step 1: Set up the Global Coordination Team

- Set up the Global Coordination Team for the preparation of the Topic on Financing, including a Team Leader for each continent.
- Set up the Team for finalization of the Concept Note under the leadership of the African Development Bank.
- Establish a detailed road map for the preparation of the topic on Financing and the estimated budget for its implementation.

Step 2: Preparation of Support papers on financing

- Launch a global call for the elaboration of cases studies and best practices on the implementation of innovative financing approaches.
- Based on lessons from the past and recent achievements (global reports, Regional and sub-regional papers on the topic, cases studies, etc), conduct an assessment (trend, constraints, progress, update the projections of financing needs to achieve the SDGs and the Paris Declaration of the financial) of the financial situation of the water sector in general and the particularities per continent (a consultant should be contracted).

Step 3: Review and finalization of the Support papers

- Send the draft reports to all the States and selected organizations, for review and inputs.
- Organize a workshop of the Global Coordination Team with the consultant for the finalization of the financial background papers for the Forum.

Some Bibliography

- 1) Report "Financing Water For All" of the World Panel on Financing Water Infrastructure (chaired by Michel CAMDESSUS), March 2003.
- 2) "Financing water Investing in sustainable growth
a. Policy perspectives, OECD Environment Policy Paper no. 11, 2018.
- 3) OECD Studies on Water "Meeting the Challenge of Financing Water and Sanitation": Tools and Approaches.
- 4) Water Global Practice, Knowledge Brief: "Financing Options for the 2030 Water Agenda", November 2016; Joel Kolker, Bill Kingdom, and Sophie Trémolet, with James Winpenny and Rachel Cardone.
- 5) "Ten actions for financing water infrastructure", World Water Council Report, March 2018.
- 6) OECD, Innovative Financing Mechanisms for the Water Sector, 2010.
- 7) GIZ, Blended Finance for Water Investment: Closing the financing gap for water in line with SDG ambitions: the role of blended finance, October 2018.
- 8) AFD, Citi Foundation, Dalberg, and Global Development Incubator: Innovative Financing for Development: Scalable Business models that produce economic, Social, and environmental outcomes, September 2014.