



Implementation Roadmap

Thematic Process

Theme 4.1. Economics and financing for innovative investments

2015-05-15

Design Group

(Tom Panella)

Executive Summary

Goal

The overall goal of theme 4.1. (Economics and financing for innovative investments) is to ensure that adequate financial provision is made to achieve the global goal of water security.

The Sessions in 4.1. address this challenge by focussing on :

1. Ensuring that water service and sanitation providers have adequate finance from public and private sources,
2. Minimising the cost of future infrastructure and services, for instance by the use of performance-based contracts, as a precondition for successful financing of all aspects of water
3. Ensuring that water resource management and ecosystems services are funded in a sustainable way from public and private sources
4. Facilitating the financing of both capital investment and O&M from both public and private sources for irrigated agriculture

Progress

The crucial steps in bringing about change will be the following:

- Assembly and analysis of real-world cases that offer an innovative and viable approach to financing water security in the various water related domains
- Examination of the factors responsible for the success of these cases, and conversely that might block their wider spread, in order to formulate an action programme for the “roll out” of innovative financing practices
- Identifying and enlisting a Coalition of Champions who are capable of promoting new and innovative practices in their own respective spheres of operation, and who are well placed to promulgate the messages and practices amongst key stakeholders.

Execution

A timetable of 2-3 years is proposed for the completion of the actions necessary to achieve the objectives, with proposals for the Coalition of Champions. Clear and easily-verifiable milestones are proposed in each case.

I. Goal

I-1. Theme Goal

To ensure that adequate financial provision is made to achieve the global goal of water security

Key Focus Area

Theme 4.1 seeks to address this challenge by focussing on :

- Ensuring that water service and sanitation providers have adequate finance from public and private sources, based on revenues from affordable tariffs and subsidies, to cover their long term investment needs for providing universal access as well as their recurrent costs of operation and maintenance.
- Minimising the cost of future infrastructure and services, for instance by the use of performance-based contracts, as a precondition for successful financing of all aspects of water. All stakeholders should be involved in the design of low-cost options, including green infrastructure, with full and sustainable funding systems for water resources management and critical ecosystem services, at local, regional and national levels.
- Ensuring that water resources and ecosystems services are funded in a sustainable way from public and private sources, in order to protect against risks of shortage, excess, inadequate quality or risk of undermining the resilience of ecosystems
- Facilitating the financing of both capital investment and O&M from both public and private sources for irrigated agriculture (including drainage) to enable it to undertake the serious reforms and productivity increases necessary to enable it to satisfy food security for growing populations and to adapt to increasing water stress.

I-2. Rationale and Theory of Change

The Significance of the Theme

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Relevant SDGs with Theme Goals 2, 3, 6, 11

Goal 2 End hunger, achieve food security and improved nutrition and promote sustainable agriculture

Target 2.3.	By 2030, Double the agricultural productivity and incomes of small-scale food producers.....through secure and equal access toFINANCIAL SERVICES.....
Target 2.4.	By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production....

Goal 3 Ensure healthy lives and promote well-being for all at all ages

Target 3.3.	By 2030, end the epidemics of AIDS, tuberculosis, malaria and neglected tropical diseases and combat hepatitis, WATER-RELATED DISEASES and other communicable diseases
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Goal 6 Ensure availability and sustainable management of water and sanitation for all

Target 6.1. by 2030 achieve universal and equitable access to safe and AFFORDABLE drinking water for all

Target 6.2. by 2030, achieve access to adequate and equitable SANITATION and hygiene for all..

Target 6.3 by 2030, improve WATER QUALITY by reducing pollution,halving the current proportion of UNTREATED WASTEWATER and increasing recycling and safe reuse by X% globally

Target 6.4. by 2030, substantially increase WATER USE EFFICIENCY ...

Target 6.6. by 2020 protect and enhance WATER-RELATED ECOSYSTEMS, including mountains, forests, wetlands, rivers, aquifers and lakes

Goal 11. Make cities and human settlements inclusive, safe, resilient and sustainable

Target 11.1. By 2030, ensure access for all to adequate safe and affordable housing and BASIC SERVICES and upgrade slums.

Lessons learned

The 6th WWF set the following Targets relevant to this topic:



Result of 6th World Water Forum

Priority of Action Financing Water for All

Target 2.3.	By 2015, xx countries per region have inscribed in their water policies the achievement of sustainable cost recovery through a combination of tax-based subsidies, tariffs and transfers from abroad (e.g. ODA, remittances) that is financially sustainable, reliable and socially equitable
	<u>Result</u> The “3Ts” approach to the financing of water services is much more widely accepted. Some new and sustainable forms of financing are becoming important and need to be incorporated into the 3Ts methodology. The scope for extending the 3Ts into other areas such as irrigation need to be examined.
Target 2.4.	By 2015, xx countries per region having transferred competence in the water and/or sanitation sector to the local authorities will have set up a financial mechanism allowing direct access to financing to local authorities through i) adequate and predictable flows of taxes and/or ii) access to repayable financing.
	<u>Result</u> While the principle of promoting sub-sovereign water financing is well accepted, information is lacking on the actual extent to which this is practiced, region by region.
Target 2.5.	By 2015 the resources mobilized through innovative financing mechanisms inspired and promoted by the “1% water and sanitation solidarity levy” have increased by xx%
	<u>Result</u> Several agencies and NGO networks are actively promoting solidarity financial mechanisms of various types
Target 2.7.	By 2015 leading service providers, financing agencies and governments in 5 countries: a) are making use of financial and other incentives to provide sustainable water and sanitation services to low income consumers; b) have mechanisms in place to ensure that capital maintenance and support costs are financed to ensure water and sanitation services that last to low income consumers.

The following Success Factors and Barriers to Change have been observed, with their Implications for progress from now on:

Success Factors	Barriers
<ul style="list-style-type: none"> • The willingness of institutions involved in the finance and implementation of water investments and services to engage with stakeholders from other sectors and realms of society in seeking solutions • Pragmatic attitudes – judging solutions according to their likely results – even though they may contravene accepted opinions and ideologies. • Active championship of innovation by agencies and institutions with the necessary credibility and status • “success breeds success” – the importance of establishing and promulgating credible show-cases for innovation and creating conditions to start the “virtuous circle” of reform. • 	<ul style="list-style-type: none"> • A Silo Mentality amongst incumbent organisations • Dogmatism concerning modes of ownership and service delivery • Indifference about water by key decision-makers and opinion-formers and reluctance to take the , often, difficult decisions entailed in making progress • Lack of interest in finance, especially where water is concerned • The presence of vested interests in the status quo, arising from jobs, patronage, corruption and self-interest • A fog of ignorance about current financial arrangements for water in different countries and regions; need for more data and benchmarks before setting more targets

Implications

- The value of cross-fertilisation of ideas and experience between different types of stakeholders
- Importance of the involvement, and consultation, of stakeholders from non-water sectors (power & energy, agriculture, environment, industry, etc) in important decisions

concerning water

- Necessity of involving real financiers in discussions (Finance Ministers and officials, bankers, asset managers, etc.)
- Better information needed for creating solid benchmarks about the status quo in water financing as a precondition for setting more targets
- Gathering information about experience with different innovative practices- what is working, where, and what are the success factors

Theory of Change

The theme of 4.1 of providing finance to enable global water security to be achieved is being approached through the following logic.

- Make the strongest and most compelling case for the economic and financial benefits of water infrastructure in its three forms of information, institutions and infrastructure. The case should be made in terms that resonate with key economic and financial decision-makers, demonstrating the vital role of water investments that both address major risks and provide positive economic benefits.
- Securing enough repayable finance (loans, bonds and equity) will depend fundamentally on water developing a strong cash flow made up of tariffs, sustainable subsidies from governments (taxes) and other transfers from ODA and philanthropic and solidarity sources (in short the 3Ts).
- In order to generate the required amount and type of funding, water authorities and service providers need to become more efficient in their choice of infrastructure and in the way this is operated. Water in general should become more “fit to finance”. One aspect of this is the use of Performance-Based Contracts to provide incentives for efficient implementation and operation of projects.
- The net should be spread widely in the search for sources of finance, both to get more funds from traditional sources such as tariffs, but also including the use of new and innovative forms, and using various different sources in combination.
- There needs to be a particular focus on several important areas where finance has proven difficult to raise – irrigated agriculture, water resources management, and maintaining ecosystems essential for the integrity of water resources and the sustainability of water services.
- The abovementioned process – creating a solid platform of information, assessment of experience, and guidance for policy makers – needs to be in place before launching a full-scale programme of implementation. Without this, advocacy will lack credibility.

Session 4.1 focussed on all these key topics. The crucial steps in bringing about change are the following:

- **Assembly and analysis of real-world cases that offer an innovative and viable approach to financing water security in all relevant domains**
- **Examination of the factors responsible for the success of these cases, and conversely that might block their wider spread, in order to formulate an action programme for the “roll out” of innovative financing practices**



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- **Identifying and enlisting a Coalition of Champions who are capable of promoting new and innovative practices in their own respective spheres of operation, and who are well placed to promulgate the messages and practices amongst key stakeholders.**

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II. Progress

II-1. Objective

The following Sessions at the 7thWWF in Theme 4.1 were chosen to advance the agenda described above:

Theme	Key Focus Area	Objective	SDGs	6 th Forum Target
4.1	Finance and economics for environmental services	[4,1,1] capture the benefits of ecosystems for water resources and services in economic and financial terms in order to generate finance for their preservation and enhancement. Specifically, to increase the numbers and range of Payments for Environmental Service (PES) and Green Infrastructure (GI) projects in all regions, to develop an agreed methodology and criteria for PES and GI projects, and to involve private and other non-governmental partners in these schemes.	6.6	--
	Performance-Based Contracting (PBC)	[4.1.2] Using PBC and other forms of Results-Based Contracting to create incentives to contractors to achieve cost efficiencies, timely deliveries or enhanced benefits of other kinds. Specifically, to increase the numbers and range of PBCs in operation and to build up a casebook of implementation of value to potential public clients, contractors and regulators. ...	6.1, 6.2, 6.4	-
	Water financing for small and decentralized water operators and actors	[4.1.3.] promote new financing and implementation mechanisms appropriate for decentralized water service operators in urban and rural areas of both advanced and developing countries.	6.1, 6.2, 11.1	2.7
	Innovative financing under the 3Ts (tariffs, taxes and transfers) and Beyond	(4.1.4) Present recent work on tracking financial flows into water and sanitation, and showcase innovative financial approaches. Specifically, financing models based on the enhanced value of land due to development, facilitating access to local lending sources, and the greater use of bankable business models adapted for the private sector.	6.1, 11.1	2.3, 2.4, 2.5
	Financing agricultural water use	(4.1.5) present a critical assessment of traditional means of financing agricultural water use, present and assess experience of the use of Public-Private Partnerships in irrigation management, and consider other options for agricultural water finance. Specifically, using this evidence to assess the scope for PPPs in the finance of irrigation, and related to this, the scope for using water pricing as a management tool in this sector.	2.3, 2.4	--
	Financing for sustainable water management	(4.1.6) present different methods and sources of finance for Water Resources Management, with cases studies from specific countries, and consider the scope for making such practices more widespread.	6.3, 6.6	

II-2. Action

The following stakeholders, amongst others, will support the economics and financing agenda leading up to the next Forum: ADB, AFD, Forest Trends, GWP, IWA, IUCN, OECD, Ramsar Convention, UNDP, Water.org, World Bank, WWC, etc.

The following Actions are proposed to advance the agenda, to be implemented over the next 3 years leading up to the 8th Forum. The Time Frame will therefore be 2015-2018 in each case, unless otherwise specified. The identity of the Leading Members will emerge following a process of consultation.

Theme	Objective	Action	Time Frame	Leading Member
4.1.	4.1.1	Develop the Knowledge Base on projects of Payments for Environmental Services (PES) and promote these schemes at greater scale		
		To create a body of evidence of programmes and projects of Green Infrastructure in relation to water resources and services		
		To critically assess such projects of Green Infrastructure and use this to provide guidance on the choice and implementation of such programmes and projects in future.		
	4.1.2	Build up a casebook of Performance-Based Contracting projects.		
		Analyse PBC cases in the above database, develop criteria to measure their success, and assess how the cases score against these criteria. Use this to provide guidance to potential public clients, contractors and regulators		
		Promote PBC into the broader areas of Results-Based Finance and Output-Based Aid, and implement the concept into irrigation and other water sub-sectors beyond watsan.		
		Promote Aqurating for the certification of good practice in PBC		
	4.1.3	Develop a Knowledge Base/Casebook of different practices for financing small-scale and decentralized water and sanitation service providers, including microfinance, and the use of other techniques such as prizes and solidarity systems.		
		Critically assess the performance and results of the above schemes and use this analysis to develop guidelines for policymakers and other stakeholders in this topic		
	4.1.4	Funding for the continuation and extension of the UN-Water/WHO/GLAAS pilot TrackFin project for tracking current spending on water and sanitation		
		Further explore the potential for using urban property values as a means of raising revenues for the development of water, sanitation and wastewater services		
		Documentation of promising innovative cases of pro-poor financing of water and sanitation services, including the facilitation of access to local lending sources, and the use of bankable business models for poor communities adapted for the private sector.		
		Engage with institutional investors to attract more financing for water from this source		
		Provide more financial support for water services in peri-urban settlements		
		Refine the "3Ts" concept to adapt it to current and future realities and make it a more powerful decision tool		
4.1.5	Production of a feasibility study on the global financing needs (for capital investment and recurrent costs) of irrigation, with proposals on how this can be funded.			
	Compilation of a database and casebook of promising cases of			



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		irrigation development, rehabilitation and modernization, focusing on the successful use of PPPs and the role of irrigation charges in financing recurrent costs		
	4.1.6	Identification of countries for piloting systems of sustainable financing of Water Resources Management , including optimizing investment to reduce water risk, the use of innovative financing sources and methods, and the preparation of plans and studies for implementing these country programmes		
		Promote the role of Green Infrastructure in water resource management for cities		
	4.1 Overarching actions relevant to the whole of this Theme	Press for the inclusion of water-related finance into the agenda of high-level political fora, such as the G20, the Climate COP, the Conference on Financing for Development, etc.		
		Promulgate evidence on the economic and financial benefits from investment in water, including its role in mitigating risks as well as its growth-promoting role.		
		Document sustainable “pathways” for the achievement of water security		
		Compile and analyse good practice in the financing of multi-purpose water infrastructure		
		Develop an agenda for the finance of water in an urban context, in the light of both the complexities and opportunities this brings		

II-3. Milestone

Milestone of Theme 4.1 is as follows

Theme	Objective	Action	2015				2016				2017				2018-				
			1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q			
4.1	4.1.1	Develop the Knowledge Base on projects of Payments for Environmental Services (PES) and promote these schemes at greater scale															X		
		To create a body of evidence of programmes and projects of Green Infrastructure in relation to water resources and services																x	
		To critically assess such projects of Green Infrastructure and use this to provide guidance on the choice and implementation of such programmes and projects in future.																X	
	4.1.2	Build up a casebook of Performance-Based Contracting projects.																X	
		Analyse PBC cases in the above database, develop criteria to measure their success, and assess how the cases score against these criteria. Use this to provide guidance to potential public clients, contractors and regulators																x	
		Promote PBC into the broader areas of Results-Based Finance and Output-Based Aid, and implement the concept into irrigation and other water sub-sectors beyond watsan.																X	
		Promote Aqurating for the certification of good practice in PBC																x	
	4.1.3	Develop a Knowledge Base/Casebook of different practices for financing small-scale and decentralized water and sanitation service providers, including microfinance, and the use of other techniques such as prizes and solidarity systems.																X	
		Critically assess the performance and results of the above schemes and use this analysis to develop guidelines for policymakers and other stakeholders in this topic																x	
	4.1.4	Funding for the continuation and extension of the UN-Water/WHO/GLAAS pilot TrackFin project for tracking current spending on water and sanitation				x													
		Further explore the potential for using urban property values as a means of raising revenues for the development of water, sanitation and wastewater services																X	
		Documentation of promising innovative cases of pro-poor financing of water and sanitation services, including the facilitation of access to local lending sources, and the use of bankable business models for poor communities adapted for the private sector.																X	
		Engage with institutional investors to attract more financing for water from this source																x	
		Provide more financial support for water services in peri-urban settlements																x	

III. Execution

III-1. Action Monitoring

Indicators for monitoring of each objective are as follows

Theme	Objective	Indicator of Progress	Target Value and Time
4.1	4.1.1.	Development of a Knowledge Base for PES	1 database by end 2017
		Compilation of Green Infrastructure programmes and projects	1 compilation by end-2017
	4.1.2	Production of casebook of PBC projects and programmes, with criteria, assessment results and policy guidance.	1 report by end-2017
		More cases involving the wider application of PBC into RBC, and its use for water in non- watsan cases	Evidence of more such cases by end-2017
		Growing number of PBC cases certified by Aquarating	Significant growth in such cases
	4.1.3	Development of Knowledge Base of innovative schemes for financing small-scale and decentralized water and sanitation service provision, including assessment of such schemes for policy-making purposes	1 database/report by end-2017
	4.1.4	A commitment to more funding, leading to the continuation and extension in the scope of the UN-Water/WHO/GLAAS pilot TrackFin project for tracking current spending on water and sanitation	Doubling of countries covered by the exercise by mid-2018
		Report on scope and feasibility of urban property values as financing source	End-2017
		Document on promising innovative cases	End-2017
		Formal engagements with institutional investors (including Sovereign Wealth Funds) to scope their interest in financing water infrastructure, including current barriers, and ways to overcome these.	2 regional workshops held by end 2017
		Greater funding of water services in peri-urban areas from national governments and international agenciesgovernments	Evidence of a significant step-up of support for such schemes by end-2017
		Research on 3Ts concept to reflect new and evolving realities, leading to production of new policy guidance	Report by end 2017
	4.1.5	Inclusion of irrigation PPPs in PPIAF database hosted by the World Bank	End-2017
		Report on the lessons of experience from recent and on-going cases of irrigation modernization, involving both publicly owned and managed schemes, and PPP cases.	End -2017
	4.1.6	Identification of countries for piloting systems of sustainable finance for WRM, & preparation of plans and studies for implementation.	5 such countries by mid-2018
Promotion of role of Green Infrastructure in water resource management for cities		Report showing cases where this is happening by end-2017	
4.1. General, overarching topics	Press for the inclusion of water-related finance into the agenda of high-level political fora, such as the G20, the Climate COP, the Conference on Financing for Development, etc.	Evidence of this, by end-2016	
	Promulgate evidence on the economic and financial benefits from investment in water, including its role in mitigating risks as well as its growth-promoting role.	Evidence of successful dissemination, end-2016	
	Document sustainable "pathways" for the achievement of water security	Report by end-2017	
	Develop an agenda for the finance of water in an urban context, in the light of both the complexities and opportunities this brings	Report by end 2016	

