**Tuesday 10 March 2015**

**Workshop**

# *Innovative partnerships and financing mechanisms:*

## *A means to deliver better access to drinking water and sanitation in developing countries*

# EVENT REPORT

## Background

Access to safe clean drinking water and basic sanitation is something everyone in the world should experience and be entitled to. According to the Joint Monitoring Programme WHO-UNICEF, 748 million people in the world live without improved water, 2.5 billion without basic sanitation (more than five times the population of the EU) and diarrhoea is still one of the biggest killers in the developing world.

Access to water is already a fundamental tenet of global policy, with the Millennium Development Goals (MDGs) clearly outlining the desire and commitment of UN member states to halve the proportion of people without sustainable access to safe drinking water and basic sanitation by 2015.

The Sustainable Development Goals (SDGs), which will be decided at the UN Summit in September, will certainly be even more ambitious. Indeed, the UN Open Working Group on the Sustainable Development Goals already recommended a goal (Goal 6) to "ensure availability and sustainable management of water and sanitation for all by 2030". To achieve the goal, new approaches to partnerships and financing will be needed.

In its response to the European Citizens' Initiative 'Right2Water', which called for the EU to increase "its efforts to achieve universal access to water and sanitation", the European Commission issued a communication addressing the global challenges and suggesting that it will: "stimulate innovative approaches for development assistance (e.g. support to partnerships between water operators and to public-public partnerships); promote sharing of best practices between Member States (e.g. on solidarity instruments) and identify new opportunities for cooperation."

It is within this context that the European Policy Centre (EPC) and the European Commission's Directorate-General for International Cooperation and Development (DG DEVCO) organised this event. The event considered also the findings of other recent events and discussions, including the European symposium on international cooperation and solidarity for water and sanitation, Strasbourg, 26-27 November 2014 and the International Conference on Public-Private Partnerships in the water and sanitation sector, Geneva, 21-22 October 2014.

The workshop aimed to stimulate discussions on innovative partnerships and financing mechanisms, including solidarity mechanisms, as ways to promote access to drinking water and sanitation in developing countries. Using case studies and examples, as well as facilitating an open dialogue with the participants, the workshop explored the potential role of EU actors and institutions in encouraging water cooperation and the sharing of best practices.

The first session contained presentations and discussions about successful partnership models using case studies to identify successful implementation of projects. The second session was an exploration of the various financing models that exist, with a discussion of how these could be mobilised to meet the increasing challenges.

The workshop tackled four key questions:

- How can innovative partnerships address the ongoing challenges? What are the benefits and obstacles for these models?
- How could the EU help to stimulate innovative approaches for development assistance, and help to support better partnerships between water operators, public-public and public-private partnerships?
- What lessons can be learned from existing solidarity financing mechanisms and what opportunities exist for new approaches?
- How could financial solidarity instruments be promoted in different EU Member States? What role could the EU institutions play in promoting sharing of best practices?

# Session 1: Innovative partnerships

## Partnership models: Current Context

The session began with Paolo Ciccarelli, Head of Unit, Water, Energy, Infrastructures, DG International Cooperation and Development, European Commission, who set out his vision for the session, noting the need for new and innovative partnerships as an important way of meeting the water-related goals.

Mr Ciccarelli explained the current position of water in EU development policies and programming of resources. He also acknowledged the potential for disagreement and the controversial nature of some partnership models, but welcomed an open sharing of views as necessary to further the issue. The public-public, and public-private- (PPP) arrangements form the basis for discussion, with Ciccarelli outlining his and the Commission's acceptance of the need to welcome the private sector into the dialogue and the creation of solutions.

He was clear to establish that this would need to be within strict parameters, ensuring that a proper regulatory framework gives a legal basis and guarantees for both public and private partners. He noted that in the past, partnerships have suffered for a variety of reasons, including corruption, political instability and fluctuating access to finance.

He finished by stating his desire for the session: "I hope that the discussion is pushed toward the development of innovative partnerships, within the framework of water as a human right."

## Public – Public Partnerships

A public-public partnership involves a collaboration between two or more public organisations or authorities, working together to raise the quality of water and sanitation in a partner's local area.

Anne-Marie Perret, President, European Federation of Public Service Unions, welcomed this opportunity for dialogue, recognizing the challenges and difficulties. She identified what she considers the four key building blocks of successful public–public partnerships. Partnerships should involve voluntary collaboration between equal partners; involve peer-to-peer cooperation, be based around mutual learning and helping; and lift up the companies that do not meet the standards (access for all, quality, sustainability, affordability of services).

"Right2Water" is the first European Citizens' Initiative to have met the requirements set out in the Regulation of the European Parliament and the Council on the citizens' initiative. In a written response, Communication from the Commission on the European Citizens' Initiative "Water and sanitation are a human right! Water is a public good, not a commodity!"[1], the EU states that it supports partnership projects (North-South and South-South) "to develop capacity in the water and sanitation sector by transferring expertise and

[1] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52014DC0177

knowledge from water and sanitation utilities, local authorities and other water sector actors".

According to the UK based Public Services Research Institute in a recent study entitled: "Here to stay: Water remunicipalisation as a global trend", citizens across the world are taking control of their own water utilities. The concept of public ownership and management is one that is at the heart of public-public partnerships.

The number of remunicipalisation cases has grown massively, from three examples in 2000 to 180 examples in 2014. Major cities that have recently remunicipalised include Accra (Ghana), Berlin (Germany), Buenos Aires (Argentina), Budapest (Hungary), Kuala Lumpur *(*Malaysia*),* La Paz (Bolivia), Maputo (Mozambique), and Paris (France).

Solidarity based, public-public partnerships were presented by Perret as rewarding and reciprocally beneficial arrangement. The benefits of public-public partnerships were furthered by Ivan Draganic, Programme Specialist, ART Initiative - Global Water Solidarity, UNDP.

His presentation described how the involvement of local authorities is key to the success of public-public partnerships. Since its establishment in March 2012, Global Water Solidarity works with over 100 partners and members, including local, regional and national authorities, international and multilateral organizations, water operators, NGOs, and private organisations, delivering projects in Guinea, Kyrgizstan, Morocco, Niger and Senegal. Draganic identified Global Water Solidarity's involvement in almost 250 partnerships, many funded using the 1% solidarity mechanism, which allows for up to 1% of local authorities' water and sanitation budget to be used for international cooperation.

The role of Global Water Solidarity is to establish and promote decentralised solidarity partnerships, supporting partners to share best practice and make local changes. Draganic's presentation identified three key dimensions affecting the ongoing success of public-public partnerships: programmatic, legislative and financial.

Programmatically, and in relation with sustainability aspects, he identified significant concerns around corruption – a theme echoed by others. Alongside this, he explained the need to ensure that the provision of water was considered and planned alongside other infrastructure projects. The legislative dimension was further explored in section two, but Draganic called upon greater encouragement from the Commission to local governments in supporting the 1% mechanism, noting that France was the only country with legislated support in place. Finally, the financial dimension and local cooperation: in one example, small local financial contributions (an investment of $50,000) meant they were only able to identify one partner for the project. Draganic recognised that the lack of funding should not hinder the continued sharing of technical competencies amongst partners. He stressed that the cost of such exchanges is negligible, but the impacts are, in some cases, more acutely beneficial than infrastructure investments.

Faraj El Awar, Programme Manager, Global Water Operators Partnerships Alliance (under UN Habitat) explained how the Water Operator Partnerships (WOPs) model has demonstrated clear successes.

WOPs are peer-support arrangements between two or more water or sanitation operators. Carried out on a not-for-profit basis, the aim is to strengthen their capacities. The nature of each WOP differs, but ultimately involves the exchange of competencies alongside the creation of new facilities where necessary.

The WOP model was formalised by the UN Secretary-General's Advisory Board on Water and Sanitation (UNSGAB) as a result of a call for such action in the Hashimoto Action Plan[2] for a global mechanism to facilitate and systematise peer-to-peer partnerships between water and sanitation organisations.

Specific successful examples of WOPs include the Phnom Penh Water Supply Authority (PPWSA) whose success establishes the benefits of peer-to-peer learning and bespoke practical support provided by WOPs. Other examples discussed included collaboration between the Surabaya Water Supply Enterprise in Indonesia and Ranhill Utilities Berhad, Malaysia – an example of a successful south-south collaboration.

Local utilities have a clear role in successful WOPs. Dutch organisation Vitens Evides International (VEI) is a collaboration between the two largest water companies of the Netherlands: Vitens and Evides Water Company. Working together they have a key role in the creation of successful WOPs. The organisation has ongoing projects in Kenya, Ethiopia, Uganda, Mozambique and Rwanda all demonstrating an impact at a local level. It also benefited from support from the ACP-EU Water Facility.

The participants then heard from Milo Fiasconaro, Executive Director, Aqua Publica Europea, an organisation involving over 50 operators and four national associations, with more than 60 projects across the developing world.

Fiasconaro echoed Draganic's call for an increase in capacity building amongst partners, further establishing the clear need to develop peer-to-peer projects that promote learning. A central point was that public-public partnerships were characterised by a shared objective, and not clouded by the specter of profit. He felt that this relationship led to a more complete knowledge transfer arrangement.

Echoing previous speakers, Fiasconaro outlined how he feels that the public-public relationship is beneficial in terms of establishing local aims and priorities, with the local voice the most powerful and persuasive.

He cautioned against a blanket funding approach, explaining how he feels the Commission's efforts should focus upon high-quality projects with high-quality outputs.

Illustrating this point, Fiasconaro commented upon the need to identify and select projects based on the sustainable benefits. He discussed how the nature of partnerships between North and South nations could, in some cases, be

[2] http://www.unsgab.org/index.php?menu=197

characterised by the establishment of a potentially paternalistic relationship and an over-reliance upon continued grant funding. This was considered particularly damaging if continued in the long-term. Such an approach, it was felt, is likely to inhibit local development and may fundamentally stifle local capacity to manage and maintain facilities.

**Public-Private models**

The accepted and acknowledged reality is that, to achieve SDG6, new partnership approaches will need to be taken. In his introduction, Ciccarelli, outlined the Commission's support for the greater involvement of the private sector as part of an innovative approach to partnerships.

Public-private relationships have been viewed negatively in the past, and it was felt that there were mechanisms that could be developed to improve the relationship for both public and private partners, explained Geoffrey Hamilton, Chief of the PPP Programme, United Nations Economic Commission for Europe (UNECE).

Hamilton explained how he felt that in developing strong, sustainable and effective means of engaging the private sector, all partners would benefit from the development of a toolkit and support structure for those embarking on such partnerships. It was accepted by those in attendance that the private sector brings a particular set of valuable skills that local operators could benefit from when designing and delivering projects, as well as in the administration and developing infrastructure to create long-term benefits.

The success of the private sector was illustrated in the example of Metro Manila. The majority of the population in the area now enjoys access to fresh, clean water as a result of a private-sector led infrastructure project. The project has led to a dramatic increase in the numbers benefitting after renewed private sector engagement.

Hamilton, recognising the skills gap in local water utilities, outlined how the dissemination of best-practice and support of the private sector could enable the Local Authority operators to define and agree contracts and partnerships that are mutually beneficial. Currently, there is a perception that local partners are disadvantaged when faced with the legal and financial might of multinational corporations.

To ensure the private sector is interested and encouraged to invest, Mr Hamilton touched upon the need for stronger control of tariffs – a fact agreed upon by all participants and explored further in session 2. Currently, he explained, the lack of enforcement and the lack of a charging structure that adequately covers costs is an impediment to private sector investment, and maintains the reliance upon external grants and funding. Reform of tariffs - how they are arrived at and collected - is fundamental not only to encourage the private sector to invest, but also to ensure the sustainability of new and existing public-public and solidarity mechanisms. He explained how improved tariff control would make public-private partnerships more likely to happen, and be more successful.

The nature of private sector involvement raised some discussion points, but all reflected the need to assess new options and to investigate how to mobilise some of the strengths - not only financial, but also capability – in the private sector to benefit the developing world. The role of the UNECE could be fundamental in achieving this, offering access to world-leading experts in the field of managing and facilitating private sector involvement, through the establishment of a dedicated Centre of Excellence.

**Investment or support?**

After presentations and case studies, the discussion identified a fundamental issue affecting the success of programmes of all sizes and in all areas is the lack of local capacity and ability to manage facilities. Investment in infrastructure - if not matched by a reciprocal exchange of management and capacity knowledge and support - will result in the programmes failing to meet their objectives and ultimately fail. Several participants stressed the importance for the EU to address governance and capacity needs in its development programmes.

Fiasconaro, stated that he believes: “There is a need for a capacity development, initiatives and actions. If we finance a water treatment plant, we need to ensure the local skills are there to manage such a facility.”

By withholding the skills and knowledge to operate and manage facilities – in the medium and long-term – the culture of dependency is maintained. Interestingly, the sharing of capacity is also affected by the nature of the relationship, with broad agreement for supporting so called ‘South – South’ partnerships. It was felt that the greater bonds and shared circumstance of the actors would improve the likelihood of success of such programmes.

Further to this, the assumption made by some operators and funders is that European devised solutions are the best in all cases is problematic. This could in cases deskill the local operator and could be a contributory factor in the continued and worrying attrition rate, and long-term failure of some projects.

In this context, Jacques Perrot, Unit for Civil Society and Local Authorities, DG International Cooperation and Development, European Commission, underlined how the EC is supporting the fundamental role played by local authorities notably through a dedicated thematic Programme. During the financing period 2014/2017 is foreseen to support local authorities in 84 partner countries through different modalities, among which decentralised cooperation initiatives.

Arnaud Courtecuisse, Head of the International Affairs Department, Artois-Picardie Water Agency and representative of Solidarity Water Europe explained the role of younger people in furthering the issues of water in the future, using the positive example of the World Youth Parliament for Water to illustrate the positive impact this can have. The Parliament brought together young people from 70 countries, across 5 continents and as a result, many of these young people have implemented a number of new initiatives, improving access to sanitation and water in their local community. The second tranche will embark on the journey again to improve access to water in their own countries.

Lastly, the discussion focused on the size and quality of projects. It was felt that different partnership models may be needed to projects of different scale and size – essentially reflecting the view that there is no one approach that will succeed. In reality, smaller projects may lend themselves to public-public relationship – particularly in capacity building – whereas larger infrastructure projects could potentially be better suited to public-private partnerships. There was no consensus on this.

Ultimately, there was agreement that the outcome was in essence more important than the process and the type of partnership. In the end, the desire to provide access to drinking water and sanitation for the 750 million is the focus.

**Recommendations:**

- There is no one perfect mechanism for partnerships, in reality, there are many. As a result, the situation will dictate the nature of the relationship and each project should be approached, assessed and analysed on its merits.

- There is no preferred route for the EU on public-public or public-private partnerships – in reality, both can co-exist. There is a need to see the best public-public and public-private partnerships have to offer. Both have proved their worth. There is also a need for innovative thinking with regards to how to finance both models.

- Capacity building is as important and a necessary complement to the investment in infrastructure. The continued, sustainable success of projects is predicated upon the up-skilling of local partners.

- Private and Public Sector Partners would both benefit from the creation of clear and evidence-based guidelines for such partnerships. This would provide protection and assurance for both sides in the relationship. The EU could encourage the development of best practices.

- The relationship needs to move from one of dependency, to one of mutual respect and sharing, which will be supported by increasing South-South, peer-to-peer projects.

- When considering projects, we need to look beyond the interested parties and consider the local citizens' interests when making any decision. Local development should be the focus.

- There is a need for an ambitious programme succeeding to the ACP-EU Water Facility, for which an evaluation is being carried out. It would be helpful to outline the gains of past projects funded by the Water Facility programmes, in particular in the field of partnerships. This would increase the political will of the EU Parliament and Member States and therefore attract funding.

- If new funds are allocated, the Commission could launch a call of interests for twinnings.

## Session 2: Financing mechanisms - Lessons learned and opportunities

As the future of the ACP-EU Water Facility programme is uncertain, there is a need to consider new models and means of funding. Coupled with the current economic circumstances, changing political situation and the expected costs of ensuring availability and sustainable management of water and sanitation for all by 2030, it is increasingly apparent that new funding models will need to be found.

Ciccarelli, in his introduction described how from 2008–13 the total budget available for water projects was €2.5 billion, and that the new EU financing framework is likely to see this amount reduced with fewer partner countries prioritizing water. This is partially a result of shifting priorities and the growth in importance of other global issues, in particular food security and sustainable energy, as reflected in the 'Agenda for Change'. The implication of this is that the prominence of water as an issue has reduced, which is a concern to all involved in the field.

In posing new solutions, Ciccarelli focussed on the need to consider water issues alongside other complimentary issues. Rather than considering this an impediment he explored how this could be considered a positive, offering new opportunity for funding opportunities moving into the future. It could involve repositioning the focus of water activity into the wider drive for sustainable growth, through a water-energy-food security nexus approach, as well as improved health, reduction in climate change and water diplomacy. In essence, it means considering water as part of a more holistic approach.

Ciccarelli's brief introduction involved touching upon the Commission's eagerness to understand and explore how solidarity funding mechanisms, domestic resource mobilisation, EU blending mechanisms and the role of the European Investment Bank (EIB) could generate additional resources needed to improve conditions in developing countries.

### Solidarity Funding Mechanisms

Solidarity funding mechanisms exist across the EU, with notable examples in France, the UK and the Netherlands. Aside from France where legislature exists, the nature of these relationships is participatory, and not mandatory. However, the funding gap between the funding necessary and projected funds needs to be filled. In dealing with this, one means may be to increase promotion on other EU countries to contribute more as part of solidarity agreements and increase the nature and scale of partnerships.

Arnaud Courtecuisse, discussed how, since 2005, funding, secured from France's 1% mechanism has supported over 100 projects, mainly in Africa, but some in Asia and Latin America.

Solidarity Water Europe works with NGOs and on occasions Voluntary Service Overseas (VSO) on projects across the world. In his experience there are four key actors that need to be considered in successful project financing: Government &

National Parliaments, Local authorities (who, he argued, are the key to this) Institutional stakeholders (Water basin authorities etc.) and wider civil society. He argued that the particular demands of each of these four audiences needs to be considered in a project and how it is financed. Drilling down, he established two key elements of safe and secure financing: 1.There should be multi-level democratic and transparent governance; 2. Participatory innovation and guidance.

Echoing the concerns of Fiasconaro from session one, Courtecuisse explained how projects needed strict governance and control. This would not only secure the project's success, but provide robust assurances for those who had financed the project, in this instance French ratepayers. His second point echoed the first session, outlining how civil society should be viewed as full stakeholders in the process, and was keen to ensure that the local community was involved in developing new and innovative methods.

Courtecuisse called for public bodies to be given financial autonomy. When setting up a new authority in a developing country, they should be given the capacity to be free to manage themselves and their own resources.

On solidarity mechanisms in general, Courtecuisse was positive about their benefits, but also used the example of micro-financing initiatives (including the rapid rise of such facilities in Kyrgyzstan) as new and innovative means of providing financial support for developing nations.

Céline Noblot, Communication Manager, Programme Solidarité Eau (pS-Eau) explained how the funding mechanism works in France. The Oudin-Santini law, created in 2005, is a complementary mechanism for water and sanitation municipalities, inter-municipal groupings, water and sanitation syndicates, and basin agencies enabling them to use up to 1% of the resources allocated budget to undertake international cooperation actions for access to water and sanitation.
Perhaps in contrast to expectations, she explained that locally the levy is not considered by many to be a tax, and has broad approval from ratepayers. Interesting also is the leverage potential of this investment, with Noblot claiming that: "€1 can help raise €3-€10 from diverse partners." In total, €200 million was mobilised between 2006-2013, with €150 million of this as part of the 1% mechanism. Contributions vary, from tens of thousands to much larger contributions, with 25 actors giving more than €100,000, among eight of which give more than €1m each.

A point was made that in the Netherlands, the solidarity funding mechanism from all providers is pooled. This sum is then used as the basis for Government contributions, with the Government contributing up to five times this sum. This is in line with the impressive Dutch commitment and contribution to Official Development Assistance (ODA).

It was acknowledged that, whilst accepted in France, awareness of such schemes in other countries (including the Netherlands) was relatively low. The perception of such funding mechanisms could be considered a "stealth tax", and given the continued focus upon local taxation in the prevailing economic circumstances, viewed negatively. In addition to the potential rejection of such funding models on principled grounds, it was also mentioned that is some countries, Germany for instance, there exists legislation that would forbid its creation.

The interesting history of UK Charity Water Aid was outlined by John Garrett, the organisation's Senior Policy Analyst on Development Finance. The charity has a strong membership model, with 300,000 members regularly donating money to the charity. The organisation has an existing relationship with UK water utilities, which involves them sending direct mail to ratepayers households, which has raised over £100m since the early 1990s.

WaterAid views itself as a catalyst for funding, an example used at the meeting was a partnership in Malawi with local NGO to create a gravity fed water project above Lake Malawi. The project was part funded by a $2.8m grant from the Australian Government, as a direct result of WaterAid's involvement.

In a report: "Think Local, Act Local", WaterAid set out their vision for successful project financing, recommending inter-governmental transfers (IGTs) are used to boost local sector progress. As a result, local accountability is strengthened and local government capacity is built.

Supporting the views of Fiasconaro and Courtecuisse, on this last point WaterAid identified the fact that there is low capacity of management in local authorities (capability, budgeting, project management etc.). In some cases, the local authorities also lack a genuine financial autonomy in the projects.

The lack of guaranteed and continued finance streams is a concern for all and it was discussed that such solidarity mechanisms are an excellent way of generating and securing longer-term finance and increase sustainability. Whilst recognising legislating a 1% water levy from all members was both ambitious and unrealistic, Draganic called upon the Commission to positively encourage the proposal to local governments, a viewpoint that gained approval from others.

In an interesting aside, Noblot illustrated how an international crisis, in this case the 2005 tsunami, transformed the fortunes of pS Eau. Having been created in 1985, the humanitarian crisis in the wake of the tsunami pushed the issue of water to the forefront of the minds of citizens', with an increase in political will and greater involvement of local authorities.

## 3 Ts - taxes, transfers (from local government) and tariffs

Domestic funding for water projects come from three areas, known as the three Ts – taxes, transfers and tariffs. The conversation focused primarily (but not exclusively) on the need to tighten up tariffs. There was broad discussion about potential tariff reform, but all recognized that the EU has no role in the setting of water prices, which are determined at national level. Many felt that the current status of tariffs was too low, failing to cover the infrastructure and maintenance costs, as well as lacking any sort of provision for future developments. The group agreed that for long-term sustainability and financial independence, finances needed to balance.

In discussions, there was a perceived lack of solidarity between the served and the un-served. Those who receive water may not be interested in, or able to pay, more to enable others to benefit. However, in reality, they will need to pay higher tariffs. The lack of tariff reform may also be a potential barrier to private sector investment, and returns to Fiasconaro's point of selecting high-quality projects that will have an impact and be successful in the long-term.

Whilst recognising the need for tariffs to cover expenses, a participant noted that should a utility such as Nairobi Water be asked to cover its expenses, it would probably be more rational for it to choose to reduce services to those in suburban and agricultural areas, rather than cover the costs through increased tariffs. As a result, it was felt that there needed to be at least some cross-subsidy through tariffs. Garrett raised an example of the UK Government working to redevelop water facilities in Maputo, Mozambique, asking the highest paid quintile to contribute a surplus to their tariffs which is then contributed to a fund to aid the creation of facilities in agricultural areas.

The need for tariff reform is a central theme and was agreed upon as being important. The extent to which this could be achieved, alongside increases in local taxation was debatable, with some more confident than others of how this could work, and its likely success.

**Domestic Resource Mobilisation**

Dick van Ginhoven, Senior Advisor Water and Sanitation, Ministry of Foreign Affairs, the Netherlands, again explored the financing of water projects by likening them to a personal challenge to secure a mortgage.

Estimates were shared in the room, but the funding gap to achieve SDG6 was agreed upon to be in the tens of billions a year, every year, a sum which all recognised was impossible to fill through solidarity mechanisms or grant funding alone. As a result, he presented a bold new case for the mobilisation of domestic resources, approaching the problem of finance through a new paradigm.

His principle was to create a local vehicle (a so called "Water Bank") to power investment. He described how local institutional investors such as pension funds could be encouraged to invest in medium-long term water infrastructure developments. Using the growth in the number and size of sovereign bonds in Africa, Mr Ginhoven described how this appetite for investment could be channeled into structured investments through a series of regulated banks. Estimating the set-up and running costs at approximately €300,000 and €3.5m for five years respectively, Mr Ginhoven explained how he estimates the bank could mobilize up to €500m - €1bn of financing during that time.

Through strengthening of the "three Ts", Mr Ginhoven presented the case that the countries would be more attractive not only for institutional investment, but also for investment from organisations like the EIB.

The presentation stimulated much discussion, with Hamilton enthusiastic, but signing a note of caution, that "Public Private relationships are only successful if there are attractive long-term objectives for the institutional investors."

Again, there were concerns of corruption and political instability affecting the long-term success. Fiasconaro also raised some potential issues in terms of governance, implying that the bond market may not be developed or mature to create such a system. He also questioned whether the strong Dutch governance could be replicated abroad.

## Blending

The lack of a direct funding mechanism for local authorities in developing countries at the heart of Ginhoven's presentation was recognised by Ciccarelli. Responding to the presentations, he appreciated the limitations of grant funding alone, and outlined the Commission's continued support for blending (where grant funding is used as leverage for additional forms of capital). Ciccarelli outlined how the Commission's view had changed over the previous 10 years, acknowledging that grant funding alone is unsustainable to meet the challenges.

He demonstrated how recent research has proved that the percentage of EU water funding was 8% grant funding, and the other 92% split between local Governments and other private donors/investors. Ciccarelli explained how: "This analysis led us to consider other options, including blending, to make our contribution more effective. This involves working with markets to improve governance, and make funding more efficient."

In his introduction, Ciccarelli was clear about how the EU had, through blending approaches, committed hundreds of millions of euros for the creation of water-specific projects, and that this support will continue. There are numerous examples of successful projects, including the Lake Victoria WATSAN Initiative to upgrade and rehabilitate the Ggaba Water Treatment Complex and the construction of a new Water Treatment Plant East of Kampala in Uganda.

The concept of leverage and blending was supported by the group, with many noting how the blending process could be improved and extended. The discussion touched upon the nature of blended funding, which requires a calculation of risk for the investor, with Ginhoven and Hamilton both explaining how successful private sector investment demonstrates a country's credit-worthiness, which increases their likelihood of receiving more investment.

Welcoming the innovative thoughts of Ginhoven, Ciccarelli once again illustrated the desire for a plurality of approaches, noting that the sector needs to work in a number of ways to identify the best solution to the unique circumstances. Among others, he called for a possible replication of the energy initiative "Covenant of Majors" also in the water sector.

## The European Investment Bank (EIB)

The role of the European Investment Bank was discussed, primarily in terms of how they could be engaged. Currently, the group agreed, there was a lack of case studies to demonstrate successful projects, and a lack of good 'bankable' projects, which is an impediment.

Continuing the theme of investment security, participants noted that the requirements of the EIB may be incompatible with the economic and political situations in some countries, and in this instance continued grant funding may be the only source of finance available. The need for longer-term strategic investment was clear, with the EIB unlikely to want to commit to projects on a short term basis, noting the need for projects to be planned on a medium-long-term basis.

On a more general level, the group discussed the need to become more open with bankers, reflecting the need to work together and overcome pre-existing and potentially damaging preconceptions and divisions. In tackling the challenges, all agreed that the private, public and charitable sectors need to work together.

**Recommendations:**

- It is legally impossible for the Commission to legislate for a 1% solidarity funding mechanism, as it not an EU competence, however there was widespread support for the Commission to support and promote the mechanism with local Governments, through dissemination of good practices

- Solidarity mechanisms do not necessarily need to be organised by the utilities themselves, or legislated. WaterAid is an illustration of an innovative partnership between a charity and local utilities that can work, and should potentially be explored.

- There is a pressing need to consider funding for water in combination with other complimentary programmes, particularly those committed to improving the environment, and in the context of climate change adaptation, reducing carbon emissions and improving local conditions.

- There is a need for tariffs to increase, with the aim that local contributions cover the infrastructure, running and maintenance costs of all developments. This is key for ensuring private sector involvement.

- Realistically, the challenges will only be met by the greater involvement and financing of projects by the private sector, which will necessitate new approaches. The Commission recognises this, and so must all of those involved in the water sector.

- Blending is proven to be a successful mechanism. With the likely reduction in funding, grant funds should be used in priority to enable and leverage the maximum amount of investment banks and private finance.

- Accountability of providers only comes when the operators have responsibility – to banks, to stakeholders and to the community. Reliance upon grant funding means that local operators don't have full accountability.

- As water is a cross cutting issue, funding for decentralised water cooperation could come from money allocated to broader or other sectors (ex: nutrition).

- There is a lack of successful case study promotion to the EIB and others which means that awareness of the sector, and the successes it can deliver, may be low amongst bankers.