

Financing Water for Growth in Africa

26-27 November 2008, Dakar, Senegal

Outcomes Statement

Key messages

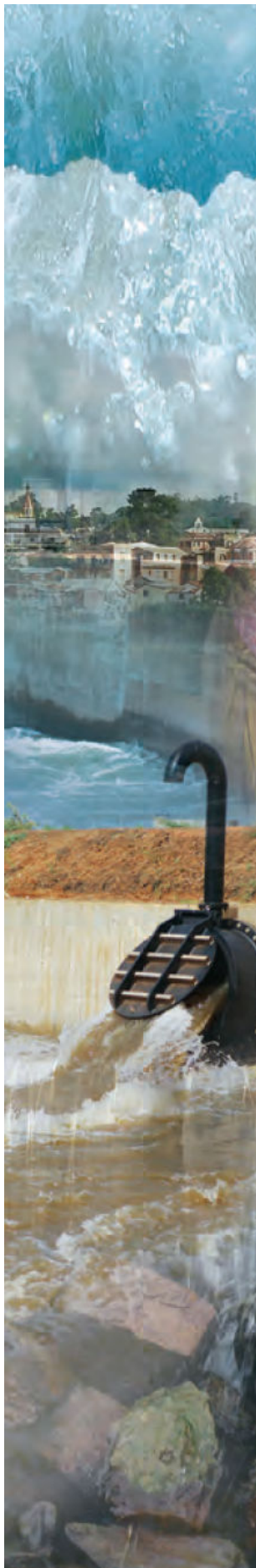
1. An emerging African private sector has delivered local success stories in managing water services through public-private partnerships. These positive experiences can spur strong partnership developments elsewhere.
2. During 2008, African Governments have made commitments at the highest levels to make the investment climate more attractive for sector finance and private sector engagement. More and more effective partnerships are required to achieve the MDGs.
3. There is a financing gap of four billion US\$ per annum to achieve the drinking water and sanitation MDGs. Utility reforms, leveraging of already committed funds, tariff setting and securing of cashflows, predictability of donor support and avoiding crowding out local market finance, are all key to getting the most out of existing resources amid the current global financial crisis.
4. New impetus is needed to find distinctive financing solutions for Africa's fragile states where there is the biggest gap in water services.
5. Urgent attention is needed to the means of financing multi-purpose dams and water resources infrastructure essential to boosting economic growth and mitigating impacts of climate change.

These were the key messages of an Infrastructure Consortium for Africa (ICA) meeting on "Financing Water for Growth in Africa". Over 150 high-level representatives of finance institutions and African water operators reviewed developments in financing and private sector engagement, and identified practical steps for action. The African Ministerial Conference on Water (AMCOW) was represented by the host, H.E. Minister Oumar Sarr, Minister for Urban Planning, Housing, Urban Water, Public Hygiene and Sanitation and by Hon. Dr. Jean Donn  Rasolofoniana, Minister of Water, Madagascar.

Minister Sarr described private sector developments in Senegal and the challenges of meeting the needs of the population amid a global financial crisis. Minister Rasolofoniana recalled the systematic and strategic political commitments by African Heads of States, AMCOW and Ministers of Health.

Mr. Edson Mpyisi of the AU Commission emphasised that governments need increased local public and private finance resources to bridge the water infrastructure gap. Development assistance needs to be sustained and predictable.

Mr. Andrian Rakotobe, Director of Water and Sanitation at the African Development Bank, stressed urgency. Many African nations will miss key millennium targets by 2015, - by a generation for safe drinking water and by two generations for sanitation. Water infrastructure has to expand to a minimum platform that will unlock the double-digit growth required to reduce poverty.



Summary of the discussions

The following summary is based on keynote papers, detailed discussions around upcoming projects, case studies and dialogues on cross-cutting issues:

Meeting the twin challenges of finance and sustainability

Key messages were relayed from the ongoing Africa Infrastructure Country Diagnostic study (www.infrastructureafrica.org). The overall price tag for water and sanitation is US\$10bn per annum over ten years. The greatest need lies in Africa's fragile states. African Governments already contribute half of existing capital expenditure and donors (mostly through multilateral channels) the other half. Private sector investment has been low compared with other infrastructure sectors. A serious under-funding of operations and maintenance is prevalent. Further utility reforms that lead to greater efficiency in service delivery and cashflow management is highly needed to better use existing resources. Scaled-up multi-source funding is also needed to bridge Africa's huge gap in water infrastructure.

Trends in Finance and the global finance crisis

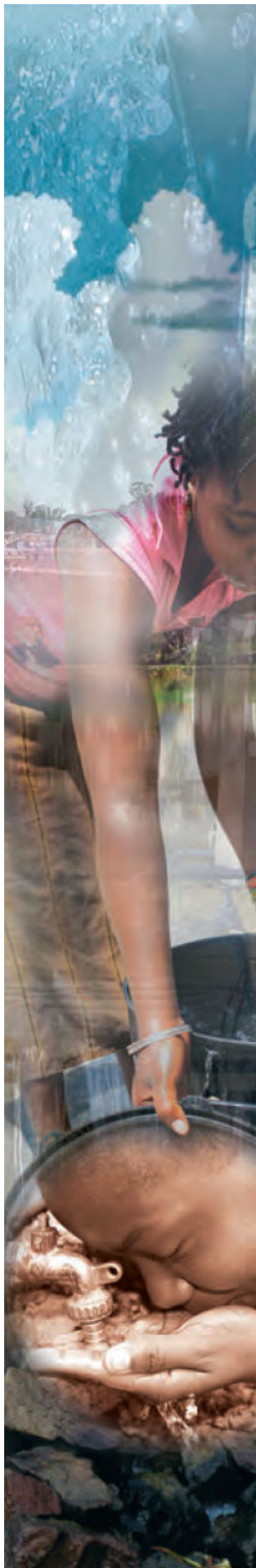
The meeting reviewed the wide variety of instruments available to finance capital expenditure, operation and maintenance, tracking their uptake across the continent. Mobilisation of private domestic capital to fund expansion programmes was assessed as a realistic prospect. Spending from the rising trend of donor commitments is likely to grow. The prevailing international financial climate has created uncertainty over commercial funding and private equity.

Scaling-up water services

A participatory dialogue led by the African Water Association (AfWA) reviewed sector experiences from the perspective of utilities. Key issues highlighted were the governance of public-private relationships; private sector opportunities to improve access to water and sanitation in rural and peri-urban settings; how sanitation might evolve as a small-scale business; better matching borrowers and lending in sector finance; and attracting finance into institution-building.

Financing an expansion of storage

Recognising that the large deficit in the continent's water storage holds back economic and social development, experts looked at ways to improve finance flows. Constraints in the 'bankability' of project proposals highlighted the need to strengthen project preparation capabilities. Electricity tariffs from hydropower are often seen as the 'cash cow'. 'Parcelling' of costs and benefits in multi-purpose schemes would support blended finance. Social and environmental recommendations of the World Commission on Dams were reiterated.



Key issues arising

Private sector engagement in practice

Reviews of private sector engagement revealed a pattern of local actors finding local solutions, increasingly with local finance. Amid weak sector governance, public-private partnerships have evolved and adapted to prevailing circumstances. Evidence showed that such partnerships have delivered operational efficiencies, including reduced losses, improved service continuity and collection rates without increasing tariffs. Lessons were drawn from the importance of political will and institutional architecture in Senegal, the absorptive capacity of a local authority to evolve a PPP in Tanzania and south-south cooperation between Morocco and Cameroon.

Moving towards bankable project investments

Sponsors set out proposed projects at different stages of development (Annex 1), focusing on urban water supply in Madagascar, Mozambique and Togo, and rural water in Senegal. Multipurpose regional infrastructure projects were presented by the Guinea Basin Organisation and the Nile Basin Initiative, alongside an innovative small-scale irrigation project in Zambia. Dialogues highlighted the importance of starting early on project finance to deal with complex packaging, to clarify roles and to allocate appropriately risks. Private engagement has been most effective when adapted to meeting local needs. Further opportunities exist for transfers of knowledge and experience between African countries.

Innovations in local finance

Diverse experiences were reported on innovations in local finance, including activation of the polluter pays principle for wastewater treatment in Dakar, water quality remediation in South Africa, civil society mobilisation in Mali, and micro-finance in Kenya. A preceding meeting on ‘Credit rating, benchmarking and access to market finance for utilities’ under the auspices of the African Water Association opened a way to help seven utilities to access to domestic finance, to be rated and to issue bonds on local capital markets.

Building on local success stories

The meeting highlighted a number of success stories in management of services from across the continent. A number of multilateral and bilateral financiers and finance facilities expressed their willingness to use existing mechanisms to support African efforts to develop and scale-up PPP approaches to water infrastructure.

Tariffs and cost recovery vital to service provision

Around 90% of those with access to piped water belong to the richest 60%. Low tariffs and weak cost recovery deprive utilities of the opportunity to raise revenue. Lack of cashflow constrains operation and maintenance and debt repayment. Improved cost recovery in Sub-Saharan Africa could raise nearly two billion US\$ p.a., around half of the overall finance gap. Achieving cost recovery is complicated by equity consideration. Tariffs setting should be politically and socially acceptable, meaning subsidies must be carefully designed and targeted.



Ten Next Steps

into 5th World Water Forum, Second African Water Week and beyond

1. All actors to take steps that will deliver action on the high-level political commitments made by African Heads of State at Sharm-el-Sheik in July 2008, by AMCOW Ministers in Tunis in March 2008 and by Ministers with responsibilities for sanitation in eThekweni in February, 2008.
2. World Bank will inform AMCOW Ministers on the findings of the ongoing African Infrastructure Country Diagnostic as an aid to policy planning and budgeting. This should include lessons on financing multi-purpose dams (including with emerging partners) by adopting a benefits-sharing approach.
3. African Governments, AfDB and development partners to follow through the AU Assembly decision (July, 2008) to convene a joint meeting of Ministers of Water and Finance on finance strategies, and the enabling environment for private sector participation.
4. African Governments to continue to improve efficiency and the balance sheets of water utilities, especially increased operation and maintenance expenditure where the largest finance gap exists. Actions need to be taken on regulatory structures that respond to increasing decentralisation and boost service coverage in smaller and secondary towns.
5. Development partners to support the benchmarking of the water sector at national levels to underpin the development of finance strategies, investment plans, reforms and absorptive capacity.
6. Development partners to engage in follow-up to the Sirte Declaration on Agriculture and Water in Africa, and the December 2008 High-Level Meeting on Water for Agriculture and Energy to increase finance for water infrastructure in relation with agriculture and energy.
7. African Governments, with the support of development partners, should allocate more resources to project preparation. The lack of projects ready for financing continues to be a major bottleneck.
8. Development partners should continue to facilitate dialogue between public and private actors and the civil society, and to ensure their support is complimentary to local resource mobilisation e.g. avoiding cheap loans that crowd out local capital markets, and develop distinctive approaches for fragile states.
9. The Water and Sanitation Program and African Development Bank to expand the accomplishment of shadow credit rating of seven utilities in support of accessing financial market.
10. The existing African Water Operators Partnership to further build utility-to-utility partnerships, and report (what is working and what isn't) on corporate governance and access to multi-source finance.

Access keynote presentations, session contributions and project briefs from the Dakar meeting at www.icafrica.org

Annex 1: List of Project Opportunities Presented at the ICA Meeting on ‘Financing Water for Growth in Africa’

Type	Project Name	Location	Project Contacts
Urban Water Supply	Urban Water Supply, Antananarivo, Madagascar	Madagascar	Sandandrano Gerald RAZAFINJATO, Directeur Gérant G 3 Bis Namehana, Antananarivo 103, Madagascar Tel: +261 3207 780 69 E-mail: sandandrano@yahoo.fr InfraCo Richard PARRY, The Managing Director InfraCo Management Services Limited Eastgate House, 16/19 Eastcastle Street, London W1W 8DA, United Kingdom Fax: +44 20 7323 6570 Tel: +44 870 735 1370 E-mail: richard.parry@infraco.com
Rural Water Supply	Public-Private Partnerships in the management of rural boreholes in Senegal	Senegal	Mr Babou Sarr, Directeur de l’exploitation et de la maintenance, Tel +221 33 832 35 92 Cell +221 77 685 28 59 E-mail: directeurdem@orange.sn
Urban Water Supply	Mozambique Build Operate Transfer Urban Water Supply Project	Mozambique	Ernesto Nhavalo, Managing Director, Moza Business Corporation, Lda Phone +258 21 40 22 69 Fax +258 21 40 22 79 E-mail: enhavoto@moza.co.mz
Urban Water Supply	Enhancing drinking water in Lome, Togo	Togo	Mr. Y.E. Evenya, Directeur Général de la Société Togolaise des Eaux (TdE), Siège social: 53, Avenue de la Libération, B.P.1301 Lomé Tel: (228) 221 34 81/34 95/59 63 Fax: (228) 221 46 13
Regional Multipurpose Storage	Rusumo Falls: water for power generation and multipurpose use: Burundi, Rwanda, Tanzania, NBI	Nile basin	Déogratias Mbeshherubusa, Project Manager, Regional Rusumo Falls Hydroelectric and Multi-purpose Project Phone : +250 08305195, Fax: +250 580100 E-Mail: dmbesher@nilebasin.org
Regional Multipurpose Storage	Water Storage and power generation project, OMVG	Gambia basin	Dr Lamine Konate, Expert Hydrologue, OMVG Tel +221 338 22 31 59 Cell +221 775 46 74 12 E-mail: Lkonate@omvg.sn Laminekonate0502@yahoo.fr
Irrigation	Smallholder farmers’ irrigation project, Zambia	Zambia	Richard PARRY, The Managing Director InfraCo Management Services Limited Eastgate House, 16/19 Eastcastle Street, London W1W 8DA, United Kingdom Fax: +44 20 7323 6570 Tel: +44 870 735 1370 E-mail: richard.parry@infraco.com