

# **Camdessus Panel Report March 2003**

## **Annex 3.**

# **Full list of panel proposals**

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*The various proposals made in the panel's report are summarised grouped together here.*

### **Governments' water policies**

1. Each country should produce a national water policy and plan, including specific programmes to meet the Millennium targets and beyond. This would be detailed in an action programme embedded in the national document, which countries committed to produce at the Johannesburg Earth Summit, and would be part of an agreement for additional ODA for water. Countries should state the indicators by which their efforts should be judged.
2. Each country should provide predictable revenue frameworks to its water service providers, either public or private.
3. Each country should monitor and report annually its achievements towards the water MDGs.
4. For the group of Highly Indebted Poor Countries, policies for water should be explicitly included in national Poverty Reduction Strategy Papers to give them higher priority in national budgets and capture some of the benefits of debt relief for local financing of this sector.
5. Governments should create an enabling environment for the participation of the private sector in the delivery of infrastructure services.
6. Governments should adopt policies for integrated water resources management.
7. Governments should encourage municipalities of large and middle-size cities to start working on projects for water supply and sanitation in response to the pressure of urbanization.

8. Governments should engage in active regional and international policies to address the problems of transboundary rivers and basins.

### **Local governments and water authorities at sub-sovereign level**

9. Governments should be encouraged to mobilise national and international training and help for their sub-sovereigns in relevant managerial and technical matters.
10. Central governments should set national minimum standards for provision of water services by the responsible authorities.
11. Governments, together with sub-sovereign bodies, should define what technical and financial assistance sub-sovereigns require to meet these standards.
12. To optimise local investment capacity, local governments and water authorities should maximise their operating efficiency and report on their performance in meeting these standards.
13. Close contacts, including partnership associations and twinning, should be promoted between sub-sovereigns, intra- country, intra-regionally and internationally to allow exchanges of experience and best practice (including preparation of toolkits and possibly standardised documentation).
14. Contracts for private sector participation should be standardised and promoted, enabling sub-sovereigns to employ private companies under incentive-driven contracts to raise efficiency and performance.
15. Central governments should provide incentives for good reporting by their sub-sovereigns—for example by relating some central transfers to the quality of reporting.

16. National governments should create a central agency to collect, publish and compare sub-sovereigns' financial and management information (including benchmarking of key operating parameters), and generally improve the transparency of these operations. The agency should encourage civil society to monitor whether the services received by the community are consistent with the reports received. Donors should support such an agency, using public and private sector expertise in administrative, legal and financial areas.

17. Governments should clearly define their fiscal relationship with sub-sovereigns.

18. Governments should be encouraged to allow and facilitate limited intercepts into domestic fiscal transfers to give partial security to lenders to sub-sovereigns.

19. Donors should be ready to provide technical assistance to sub-sovereigns for analysing and designing water projects.

20. Donors should be ready to channel aid to sub-sovereigns requiring funding on concessional terms for water projects.

21. A Revolving Fund should be created, using grants to finance the public preparation and structuring costs of complex projects such as private participation projects and other innovative structures.

22. Sub-sovereign entities should consider the option of retaining assets in public ownership, with continuing public responsibility for investment finance, and with operations privately financed and managed.

### **Promoting local capital markets and savings**

23. Governments and central banks should put in place measures to promote local capital markets and address problems caused by their own actions in crowding out other borrowers. Larger countries should lift remaining barriers to the use of local funding, where they are redundant.

24. Governments, with the help of MFIs and donors, should be asked to promote the rating of sub-sovereigns, to facilitate their financing but also to enable transparency and the tracking of behavior.

25. Governments should consider taking steps to permit the development of domestic borrowing markets for sub-sovereigns.

26. Governments should encourage and facilitate the entry of rating agencies and bond insurance and financial guarantee companies into their domestic capital markets.

27. With appropriate reforms made in the light of lessons from previous experience, national development banks or specialised financial institutions should develop a role as intermediaries for channeling external and central government funds, and funds raised in local markets, to subsovereign bodies operating in the water sector.

28. Governments should encourage the creation of credit pools for sub-sovereigns, with an option of joint and several liability.

29. MFIs and other agencies should extend their use of guarantees and the issue of local currency bonds to promote local capital markets, extend the maturity of local loans, and encourage the use of local pension funds in the water sector. They should urgently address statutory and managerial obstacles to their further use of these instruments.

### **Sustainable cost recovery**

30. The panel proposes that the aim of water service providers should be sustainable cost recovery, which means that:

- Service providers should aim for revenues sufficient to cover their recurrent costs, and they should develop sustainable long-term cost recovery policies, anticipating all future cash flow needs. SCR includes operating and financing costs as well as the cost of renewing existing infrastructure.

- Revenues arising from charges should be covered by users as a group. Under SCR, not all users would pay the same price. Individual affordability of water charges should be ensured by appropriate tariff structures including local cross-subsidisation (for example, by setting a rising block tariff structure) or by individually targeted and transparent pro-poor policies.

- The part of recurrent revenues provided by taxpayers from public budgets should be secured by agreeing well in advance the allocation of sufficient fiscal transfers.

31. Where subsidies are used they should be targeted, transparent and (where intended to ease the transition to higher tariffs) tapering.

### **Increasing managerial capacity in water institutions**

32. Funding for capacity development in water institutions should be a high priority for the use of ODA and MFI funds.

33. Donors should support cooperation and partnership agreements, preferably involving experienced and reputable public partners, as a means of strengthening core public capacities. These should state mutual responsibilities and contain performance targets and incentives applying to both parties.

34. The panel recommends the concept of joint working on problems and learning while doing in public-public partnerships as well as in cooperation agreements between utilities and companies. Such cooperation could be within a country, or North-South or South-South.

35. Donors should finance trust funds in the MFIs for using specialists with strong practical experience at the appropriate level to assist in the transfer of skills.

36. In implementing the MDG targets, donors should support action planning, in which planning and project preparation are wrapped into aid projects.

37. ODA should be provided for the work of regional professional associations in support of training, professional exchanges, and data collection and benchmarking.

38. ODA technical cooperation should be used to help the preparation, structuring and implementation of private participation contracts, such as BOT and other concessions, management contracts, and leases, as a means of enhancing on-the-job capacity building.

### **Legal and regulatory environment, corruption and ethical practices**

39. Capacity development in the core public institutions of the water sector should aim to define and implement a water policy, set a regulatory framework and create a basis for commissioning and controlling executing work, whether performed by private or public agents.

40. A study should be funded for the preparation of best practice and model clauses in the legal agreements for private participation, with particular reference to the water sector.

41. Executing agencies should be made attractive for highcalibre leadership, accountable for performance and delivery. Integrity standards should be worked out cooperatively by all interested parties.

42. The decentralised nature of water services is an opportunity for different mixes of public, private and self-help options, and for competition between them. The choice between them should be pragmatic, eschewing ideology.

43. The high political profile of water should be used to create more transparency for its operations. Public opinion, user associations and NGOs should be encouraged to monitor and publicise the activities of water organisations and expose corrupt practices.

44. Private and public companies engaged in the water sector are urged to cooperate with public clients and other parties to develop methods for promoting ethical behaviour. Private participation contracts should be fully transparent.

### **ODA**

45. Governments of developed countries should be held to account for their commitments to increase aid to the water sector. Overall ODA for water should be doubled, as a first step. Donors and MFIs should aim to make substantial increases in the share of water in their total commitments.

46. Individual donors should contribute their share towards this target, depending on the size of their current aid to the water sector. This ODA increase should preferably be in the form of grants rather than concessional loans

47. Donors should keep funds available for rewarding countries that make early progress on implementation of water programmes in fulfilment of the MDGs.

48. Donor agencies should work, under the guidance of the OECD's Development Assistance Committee, UN agencies, and the Development Committee, to implement the DAC's recommendations on increasing the effectiveness of aid and improve the coordination of their efforts in this sector.

49. In view of the capital intensity nature of water investments, and the need for front-loading ODA, means should be found for governments to create a special national or international facility to pre-finance disbursements budgeted for a later period.

50. Rather than funding entire projects or programmes through grants, with the risk of smothering local initiatives and discouraging financial self-sufficiency, donors should regard their funds as catalysts to mobilise other flows and empower other players.

51. The panel encourages the parties involved to enter 'debt for water' swaps as a means of increasing local currency funds available for water projects.

52. The panel invites the DAC to consider amending its presentations of national ODA performance to reflect properly the status of guarantees.

53. Geographically, ODA should favour those countries, especially in Africa, where the water service deficit is greatest and where most remains to be done to meet the water MDG targets.

54. Within countries, grant ODA for water and sanitation should be directed to regions, settlements and social groups where public subsidy is necessary.

55. Within the water sector, ODA should also be used for services that have to be financed publicly because it is not feasible to provide them privately, such as water resource management, large water storage schemes, flood control and major irrigation and drainage projects.

56. Bilateral ODA should be applied in support of various current important multilateral initiatives, such as the African Water Initiative, AfDB's Rural Water Supply and Sanitation Initiative and the FAO's Special Programme of Food Security, among others.

57. Aid should be used to catalyse other financial flows by such means as funding initial overhead costs, providing equity for revolving funds, guarantees, and subsidies targeted to performance (such as output-based aid).

58. Donors should report annually about the impact of their aid on achieving water MDGs by publishing:

- The number of people they have helped to get access to water and sanitation

- The average "aid efficiency" of their water projects: that is, the foregoing number of people divided by the grant value of their aid.

- The "leverage effect" of their aid, namely, the total amount of financing mobilised on water projects they have aided.

## **Multinational financial institutions (MFIs)**

59. MFIs that do not now lend to sub-sovereign entities should reconsider their policies, with the aim of permitting such lending in appropriate cases, subject to normal prudential criteria.

60. MFIs should revise their policies on capital provisioning, where these are undue constraints on the use of guarantees.

61. MFIs subject to the participation requirement should consider amending their articles to enable them to have the freedom to issue guarantees on a standalone basis.

62. MFIs and donors should resume lending to essential surface and underground water storage projects, subject to adequate social and environmental safeguards.

63. New instruments and funds to be created should preferably be located in, and coordinated by, the regional development banks.

## **International commercial lending**

64. Banks should focus initially on concluding suitable transactions, picking the low hanging fruit, and starting to develop a track record and creating a market precedent.

65. As the market for water projects develops, banks should attempt to standardise documentation and simplify the financial and commercial process. They should encourage the development of local capital markets in which projects can obtain part or all of their funding to enable better currency matching of revenues with borrowings.

66. MFIs and ECAs should enhance and extend political risk coverage for projects, including the use of MFI guarantees and relaxation in ECA rules on guarantees and insurance.

67. Banks and other lenders should develop and employ innovative financing techniques such as securitisation or collateralisation of loan-debt obligations (that is, combining a number of individual project loans into packages, taken up by other lenders).

68. A new Devaluation Liquidity Backstopping Facility is proposed as one method of mitigating the risk of foreign exchange fluctuations in water projects at the sub-sovereign level.

### **Export credit agencies (ECAs)**

69. The OECD should consider incorporating into the Arrangement a requirement that 2–3% of aggregate ECA credit be directed annually to water projects.

70. The OECD should consider allowing 20-year repayment terms (the current limit is 10 years) for water, and give special term flexibility for this sector and allow more freedom to shape the repayment profile to cash flows.

71. The OECD should consider raising the limit on credit for local costs for water projects from 15% (the current maximum) to 50% of the export value.

72. ECAs should consider offering guarantees and loans in local currency

### **Private investment and operation**

73. Governments and water authorities should recognise the present and potential role of small-scale water service providers (SSWSPs) and other parts of the local private sector, and provide a legal framework to encourage greater long-term investments by them.

74. Governments should include SSWSPs in their national water supply strategies and service development plans, including incentives for them to improve their services.

75. SSWSPs should be encouraged to improve their access to finance to increase their capacity to invest in the sector and reduce their cost of capital.

76. Where public authorities are considering reforms of the water sector, or tenders of various kinds are being drawn up, private participation should be included as an option, to be decided on specific grounds of efficiency, cost and effectiveness. Procurement decisions should as a rule be made on the basis of open and transparent competition, typically through bidding.

77. Donors and governments should be open to financing water projects by combining public funds with private financing in transparent and acceptable ways.

78. ODA should be available to facilitate water projects managed by private operators under public control—for example output-based aid could be used to expand networks or fund revenue shortfalls on a diminishing basis under a concession. ODA could also be used to finance investment in assets owned by the public and operated by the private sector.

79. Guarantee and insurance schemes offered by MFIs, governments and export credit agencies should be expanded in scope, and the internal constraints on their use should be relaxed. The specific needs of potential private operators in the water sector should be kept in view.

80. Governments taking up private participation should provide adequate securities to create trust in the sustainability of long-term contracts.

### **Community initiatives and service-oriented NGOs**

81. The roles of civil society groups as service providers, advocates, participants in planning processes and watchdogs need to be supported, and their capacity to perform them more effectively needs enhancing.

82. Micro-credit schemes available for financing community water projects should be supported by donors, MFIs and external NGOs through the provision of seed capital, initial reserves and guarantees. Continuing subsidies should, however, be avoided.

83. External NGOs should propose ways of raising more funds through the various kinds of solidarity mechanisms for channeling to their local partners.

84. A full study should be conducted of the feasibility of creating a Decentralised Fund for the Development of Local Initiatives.

## **Implementation of the proposals**

85. 2006 should be the first check-point on the route to 2015. This would be an opportunity to review the measures endorsed at Kyoto and at subsequent gatherings, and actions taken to implement them.

86. 2015 should be the next essential check-point, opening the third stage of a strategy leading to universal access and sanitation by 2025.

87. A “global control tower” should be established to monitor and report on the progress made towards achievement of the MDGs for water and sanitation, and the performance of the main parties involved in implementing and funding these activities. To complement this, a group of “wise persons” should be formed to evaluate this information, monitor developments and make recommendations on the steps needed to secure the water MDGs.