

Thematic Session 2: Sustainable Financing

Some reflections from reviewed experiences

Reflection 1: There is no “one model fits all”

- § Financial arrangements are different at each stage of the development process
- § User-pays and polluter-pay principle applies to all cases, but adopted to specific circumstances

Financing Transboundary Lake Management

Stages in the overall development process

Initiating Process

Costs for establishing transboundary institution

Transboundary Inst.

Administrative/management costs of transboundary institution

Operational Program

Operational costs for database, assessment, monitoring, public participation

Infrastructure Inv.

Capital and O&M costs of water-related infrastructure

Financing Transboundary Lake Management

Sources of financing at each stage of development

Initiating Process

Mostly externally funded – when crisis/rich assumed by governments

Transboundary Inst.

Mostly externally funded initially assumed by governments

Operational Program

Some basic activities governments others external funds – target: self-financed inst.

Infrastructure Inv.

Concessional/grant financing for capital costs and users fees for O&M costs

Reflection 2: Demand for external funding to support initial stages is growing

- § World Bank/UNDP with GEF funds, Global Water Partnership, Petersburg/Athens Process and others have so far supported initial/all stages
- § While GEF a major source of funds, there is more competition for GEF grant financing
- § Since future of GEF funding is uncertain:
 - Should countries try to mobilize EU Instruments for Pre-accession (IPA) assistance allocated to the area of transboundary cooperation for Transboundary Lake/Basins Initiatives?

Reflection 3: Public good functions of transboundary institutions to be funded from government budgets

- § Expectation of having self-financed transboundary lake institutions in the medium-term seems unrealistic
- § Costs associated with public good functions may need to be covered by government budget
 - Distractions from main tasks if they have to seek external funding – often for specific projects.
 - Macedonia Water Fund collects a special tax from water users to cover water-related activities of public interest
- § Lake institutions need to be cost-effective and efficient
 - Streamline institutions and avoid duplication/overlapping of functions
 - Have clear goals and M&E programs

Reflection 4: Innovative options for financing transboundary lake institutions

- § Were other financing options considered by the countries?
 - Trust funds
 - Payment for environmental services
- § Were there constraints that prevented their use?
- § If so, what are the key steps that need to be undertaken by the countries to adopt innovative financing options?

Reflection 5: Grant financing may distort investment decisions

- § There are grant funding possibilities for investments in water supply and wastewater
- § Grant financing could discourage least-cost and affordable alternatives
- § While grants can finance up to 100% of capital costs, users must cover operation and maintenance costs
 - Local governments must be involved in decision-making process
 - Tertiary wastewater treatment plants are costly to operate –beyond financial means of households

Reflection 6: Capacity of local utilities often a constraint to absorb concessional/grant funding

- § Absorption of concessional funding requires solid (in terms of financial and technical performance) local utilities/ local government institutions
- § What is being done to build capacity of utilities?

Issues of discussion

- § Innovative options for financing tranboundary lake institutions - -particularly public good functions – and maintaining civil society involvement
- § Availability of concessional/grant financing for water-related investments
- § Local government involvement in decision-making process – they will own and operate infrastructure built with grant financing
- § Absorptive capacity of local utilities