

Michel Camdessus

Former managing Director of the International Monetary Fund

Chairman of the United Nations "World Panel on Water Infrastructure Financing"

GLOBAL CHALLENGES OF WATER RESOURCES

Among the Millennium Development Goals(MDG) enacted by the United Nations, two are about water access and water sanitation in the world. Michel Camdessus, the world leading expert on the financing of water infrastructure, gives for Renlai an exclusive assessment of what needs to be done for providing better water access to the poor of the world. We can make it! says he. But special efforts have to be deployed, adequate financial instruments have to be invented, and a better cooperation between nations, international institutions, ONG, local governments and the private sectors is to be looked for. Ultimately, local communities, and especially women, have to be empowered, for they are the ones who know best the ills that afflict them.

For centuries, China has struggled to get a proper access to water, or to fight tremendous natural disasters related either to floods or to droughts. Thanks to its technical sophistication and the wisdom of its peasant population, China knows a lot about water problems and water infrastructure. It is also able to invest much capital in this sector....Many countries, alas, in other parts of Asia, in Latin America and particularly in Africa are by far not in such a relatively favourable position. Let us here adopt a worldwide view in this article, when speaking on how to finance the infrastructures needed to provide water for all in the world.

A concern at the same time very old and very recent

As a matter of fact, there is something amazing in the fact that the international community has very recently taken full conscience of the risks the negligence of water issues could entail. We had to wait the Johannesburg Environment Summit of 2002, for instance, to decide to add the issue of sanitation to the list of the Millennium development goals enacted by the United Nations. But, for the leaders of the world, to decide to reduce by half, before 2015, the proportion of people in the world without access to water and to sanitation, is one thing, - visionary and generous indeed. Another thing is to find the financing for it and to make sure that the proper resources are channelled properly where the real problems are.

To be true, this financial question was not considered with great detail, before these pledges were adopted; so very soon doubts were expressed about the feasibility of it, and many suspected that -once again- these promises would be forgotten. Any human being would see it as particularly unfortunate, when thinking about what is at stake for the poorest of the world. This is why sometimes after leaving the IMF, I couldn't but accept the offer to come back to the development field to chair the ***World Panel on Water Infrastructure Financing***. This has been for me -due chiefly to the remarkable group we were able to assemble- a most stimulating and, at times, moving experience,

Financing water infrastructures

My professional life had provided me with a distinct experience of such working groups, but this one was really with no precedent for me, and I witnessed with great admiration the fact that, confronted with the tragic situation of the world, as far as water is concerned and its extremely gloomy prospects for the next decades, if we are not able to generate a "sea change", the members of the Panel truly reacted as human beings with their hearts and brains and didn't refrain to offer -in full independence- very radical suggestions. What was in a nutshell our message? It was a simple one. At the start of this Third Millennium, more than one person in three in the world -including in Asia and Pacific region- suffers hardship and indignity from the problem of water. The numbers are the following: 1,2 billion people live without proper access to drinking water; 2,4 without basic sanitation. The root cause of this problem is the negligence of mankind and our resignation in the face of inequality. Water is one of the world's worst injustices, perhaps because it is above all *an injustice done to women*, which is why it is largely unspoken of, and one of the most difficult to correct. On top of that, one of the most extraordinary findings of this working group on water was to discover also that we are here in a domain of incredible human failures. Throughout the world, water is taken for granted and very limited efforts are mobilized to provide water access and sanitation to those who are deprived from it. Governments frequently care much less about the rural population (the victims in general of that situation) than about the urban population. The related human pains and sufferings are immense and could be significantly reduced at not too heavy a cost, as the rural population is ready to participate in the needed investment and to pay a reasonable price for the water they would consume. But frequently no sufficient attention is given to this problem, leading, indeed, to dramatic social costs and misallocation of resources. A simple example could illustrate this. Only 35 % of the 330 million people living in rural Africa have a proper access to water, and many less to even rudimentary sanitation. It has been calculated by the World Health Organisation that the consequences of such a situation in terms of water-related diseases and economic costs could be evaluated to around 20 billion US dollars a year, while the cost of the program which would allow to increase from 35 % to 80 % the number of people with access to water and sanitation would be according to African Development Bank (AfDB) 14 billion dollars.

Clearly the world cannot allow longer for such irrationalities.

Water, the absolute priority

But why this absolute priority for water? Well, the Panel has responded in the following way. First because it is a human right, stated in the following way by the UN Committee for economic, social and

cultural rights: "The human right to water is indispensable for leading a life in human dignity, it is a prerequisite for the realisation of other human rights".

Second, although water is the subject of only one of the goals contained in the Millennium Declaration, it is a vital one if we want to achieve the other goals, such as reducing poverty, improving education and gender equality. To take just two examples:

- providing segregated toilet facilities in schools is in many societies a pre-condition for the further education of girls;
- irrigation is and will increasingly be a prerequisite to increasing food production in order to feed the growing world population

Third, access to clean water, proper sanitation, and attention to wastewater disposal and treatment, have proven to necessary for ensuring public health¹. Carrying water over long distances and waiting at water sources wastes the energy and time of women and children, at the expense of family activities, education and productive work.

Fourth, effective water resources development and management are basic to sustainable growth and poverty reduction, in several ways. Broad-based water resources interventions such as major infrastructure provide national, regional, and local benefits from which all people, including the poor, can gain. Broad-based water service interventions (aimed at improving the performance of water supply and energy utilities, user associations and irrigation departments) benefit everyone.

Over the next fifty years, more than half of humanity is threatened by "water stress"; nevertheless, the dream of pure water for all still unites us and the report carries a basic good piece of news. ***The dream of pure water for all can be realised.*** This can be done by prolonging for a further ten years the effort to which the whole humanity is committed from now to 2015 to achieve the MDGs to reducing by half the proportion of the world's population without access to water and sanitation. This is a challenging task for the current generation, governments, business and civil society working together in a joint commitment. Yes, this effort must involve all parties acting together, while in the past they have too often tended to shift responsibilities to each other. The problem needs tackling at a global level, and can only be solved if all the various parties accept the need to change their approach, in most cases radically. This applies not just to governments in the North and South but also to towns, regions, non-governmental organisations, communities and civil society, public services, companies, banks, multilateral organisations and others. Each must redouble its efforts. *Redouble* is indeed the proper word. At this moment in the world, each day 210.000 additional people are connected to basic sanitation; but in order to attain the MDG we should be connecting 400.000 people per day!

The financial needs can be simply stated. Financial flows need to at least double, and need to come from financial markets, from water authorities themselves through tariffs, from multilateral financial institutions, from governments, and from public development aid, preferably in the form of grants. This doubling, or more, of the volume of finance didn't daunt the Panel. The world is capable of it. But it will make no sense, and the finance will not be forthcoming, unless there is a corresponding effort to reform the way in which the entire world deals with its water problem. This concerns people at all levels of responsibility, from village communities up to the United Nations.

This was the message. The more we go now the better we perceive how intrinsically appropriate governance and finance are connected. Water supply and sanitation and local government reform are strongly interlinked; similarly, one of the key concepts of the Panel report, the sustainable cost recovery is central for achieving millennium development goals in this field. Of course, all these views and the 80 proposals of the report were probably too recent -and too blunt- too abstract in their language, too unexpected also, for having been perceived in depth when the Water World Forum met in Kyoto. But the conference took note of it and its proposals started permeating in major world fora during the following months: in the Development Committee in Washington, in the OECD and the European Union. All of that culminated in Evian, the 1st of June, 2003, by the adoption of a G8 Action Plan which closely follows the Panel recommendations. It is worth to sum up its gist, particularly as,

¹ Poor water and sanitation is an important cause of diseases such as diarrhea (4 bn cases each year, with 2.2 mn deaths), intestinal worms (affecting 10 % of the population of the developing world) blindness from trachoma (6 mn cases), cholera (where there have been 90 separate outbreaks since 1996) and schistosomiasis (200 mn people infected).

having been endorsed by the World Bank Executive Board and Development Committee by the Regional Development Banks including African Development Bank, it defines the scope of international action. The action Plan determines some key priorities:

- promoting good governance,
- utilising all financial resources and reinforcing engagement of international organisation,
- building infrastructures by empowering local authorities and communities,
- Strengthening monitoring, assessment and research.

Promoting good governance

The crucial importance of *governance* has been a key finding of our work. Yes, our problem is as much a problem of governance as it is of financing; and for both -governance and financing- the real problem will be to act against the ordinary tendencies of governments and financial institutions; instead of retaining power and resources, the challenge will be to be able to achieve, in these two fields, real decentralization, and so, to make sure that decision-making capability and financial means are as close as possible to the places where the needs are, particularly in the municipalities and in the rural communities of the world. We know that this will be difficult, that this will require major institutional technical and managerial assistance and capacity building, but there is no other way to our judgment to achieve our objectives.

This is the basic -and very simple- principle governing all proposals of our report, but, yes, it will imply decisive changes at all levels: those of international organizations, governments of North and South, regions, towns, communities, civil society and NGOs but also public services, private companies and banks, micro-credit institutions, small scale water service providers, etc. Of course, this could make all actors, and particularly governments, to hesitate, but there is no other way to raise to this challenge; and as the problem is truly of a systemic nature, all parties will have to act together. A major effort will have to be invested in promoting their coordination, starting by an immediate effort to bring about, at all levels, the needed technical and managerial assistance, together with strengthening governance, of all the links of the institutional chain.

This calls for an unprecedented effort to reform the way in which all actors have been working so far. There are many actors intervening in the governance of the water problem. Let's see how they should adapt or transform radically their interventions to maximize their chances to reach the MDG:

First: to governments of developing and transitional countries: we ask them to demonstrate a high sense of leadership, but basically, we tell them: "Have a water policy! Tell us how you intend to get the MDG achieved! Establish credible regulations' frameworks for all actors! Adapt your financial policies, develop local financial markets in your currencies to facilitate issuance of municipal bonds! Act with other regional countries on transboundary issues, and decentralize!"

To local authorities: "You must be in the driving seat; start working on preparation of projects (special revolving funds are proposed to be created in order to finance the costs of the complex ones), and consider the options of working with the private sector when it can help you to better achieve your task."

To water service providers: “Apply for technical and managerial assistance and do not depart from a sustainable cost recovery strategy” This means to enact a tariff structure fully covering operating and financing costs (as well as the cost of renewing infrastructure) but making sure that the poorest can also afford the cost. Sustainability and affordability are the two main principles.

To local communities: “Your role is crucial particularly in the rural areas; acting with service-oriented NGO and benefiting from grants and micro credit institutions. You are the only ones who can lead operations in unreachable areas. In doing that, listen to the voices of women who devote so much of their life bringing water home!”

All of this can seem very abstract, but the underlying message is very simple. If we want water to be available to poor people, frequently in remote areas, we must organise the decision-making chain from bottom up, for their voices and needs to be perceived and for them to be taken into consideration in the planning process.

We thus need to utilise all financial resources as creatively as possible. For that, the industries and the donors must be committed to:

- give high priority in Development Aid allocation to sound water and sanitation proposals of developing country partners; I don't see it to be yet sufficiently implemented;
- help mobilise domestic resources for water infrastructure financing through the development and strengthening of local capital markets and financial institutions, particularly by :
 - establishing, where appropriate, at the national and local levels, revolving funds that offer local currency loans,
 - appropriate risk mitigation mechanisms,
 - providing technical assistance for the development of efficient local financial markets and building municipal government capacity to design and implement financially viable projects,
 - providing, as appropriate, targeted subsidies for the poorest communities that cannot fully service market rate debt;
- encourage international financial institutions (IFIs) to give the necessary priority to water;
- promote sustainable cost recovery, with “output based aid” approaches, to ensure access to services for those least able to afford them;
- promote public-private partnerships (PPPs), where appropriate and suitable, particularly by inducing private-sector investments and encouraging use of local currency;
- in order to reinforce the engagement of international organisations, the World Bank and the Regional Development Banks are invited to:
 - to use their financing instruments in a more flexible manner to allow loans directly to sub-sovereign bodies, where appropriate,
 - to develop guarantee and insurance schemes for risk mitigation,
 - to address the issue of sovereign and foreign exchange risk coverage.

All of this makes for a heavy agenda of reform, not surprisingly as we were go out of line to comply with the Millennium development goals. But this was the only way for at least approaching them. There are nevertheless demanding enough to discourage those in charge. So far, I am happy to say, it has not been the case. All key institutions have been active in working in the follow-up business. Many others institutions took similar steps. Let's see what already has been made. This, then, will allow us to make a few suggestions for the future.

What has been done till now?

The Panel was ascribing a leading role to Regional development Banks (RDB). Today, one can fairly say that the World Bank and the RDB have been active in seeing how to respond to the flagship measures underlined by the G8 Action Plan : guarantee and insurance products for risk mitigation, including coverage for sovereign and foreign exchange risk and, of course, efforts to provide loans to sub-sovereign entities where appropriate. These efforts are particularly noteworthy at a moment when, for various reasons, the atmosphere for active involvement in this field is less than buoyant. Suffice it to say that private financing has decreased in the past years. Particularly worrying is the fact that the already small number of international private operators in water supply and sanitation is facing difficult cash flow situations and are reducing their financial exposure in the sector. This adds to the need of alternative financing approaches utilising hybrid schemes, for instance public utilities operating under commercial law combined with private financing.

According to the reports I have received, all IFIs are working in these areas. The World Bank has made special room, in its Action Plan for infrastructure to the water issues and all institutions are stepping up the deployment of their instruments. IFIs recognize that they are uniquely positioned to provide risk mitigation for water supply and sanitation projects. Similarly they recognize the importance of support to sub-sovereign entities in the water supply and sanitation sector, including technical assistance for reform, capacity building and financing. Most IFIs are considering how to increase this kind of financial and technical support.

Particularly noteworthy among these collective efforts of the RDB are the initiatives in the field of water for the poorest. Among these initiatives, I would like to underline the efforts of the Asian Development Bank to catalyze water financing for the rural poor under its *Partnerships for Action* launched at the 3rd World Water Forum. The initiative is being piloted in Vietnam and will be replicated elsewhere. Its scope includes rural water supply and sanitation, sustainable environmental management, and investments to reduce vulnerability to water disasters. In mentioning it, I have very present to my memory, the tremendous floods Asia suffers periodically, with tremendous losses of human lives and of all kinds of infrastructures and equipments. Private sector participation will be promoted through innovative approaches in rural water supply, sanitation, and groundwater irrigation. As far as I am concerned, I would see there a particularly promising and exemplary domain where the resources of the Asian Development Bank including those resulting from the replanished Asian Development Fund should be invested. The new grants element of the Fund should be particularly relevant for such purposes.

I see also great interest in the initiative of the African Development Bank who is also adopting in this field through its proposals for a *Rural Water Supply and Sanitation Initiative*. This is a most attractive project as it intends to address -head on- one of the most pressing water problem of the world, the

problem of almost 400 million people in Africa (50 % of its population) lacking water access while an even higher figure lacks sanitation. You know all the related problems (preventable diseases, deprivation of women and girls not attending school to fetch water, etc.): all these problems combining to perpetuate poverty. To fully face it, the rate of increase in coverage over the next 20 years has to exceed 19 million rural inhabitants per year.

By providing for fast track transparent mechanisms for preparation and implementation of programmes, by systematically seeking beneficiaries' participation, promoting technologies appropriate based on beneficiaries consensus, associating national and international NGOs, and promoting and supporting local initiatives for funding, the African Development Bank targets the needed investment for:

- 66 % of the rural population for water supply and sanitation by 2010 from the present 34 %,
- 80 % by 2015.

thanks to an average annual investment in the first 7 years (up to 2010) of \$ 1,4 billion.

Among the recent multilateral initiatives, it is worth mentioning also the decision of the European Union Commission to establish a 1 Billion euros Water Fund, with the purpose of contributing to the global effort for the achievement of the water supply and sanitation MDG. The mobilisation of adequate levels of resources should include optimal co-financing with other sources of funding and use of the most appropriate financial engineering techniques.

For an international "Control Tower" on water issues

On the other hand, it is very hard to track down what is to be done by individual countries in the field of bilateral aid. This problem brings me back to comment on how the United Nations intend to answer the call to take a key role in the water sector by filling a major gap in the global institutional system. No single international organization has a clear and undisputed role for monitoring water. In the UN system, so far, water was an orphan. A number of international bodies fulfil valuable functions in this respect. But none has the key mandate of being a global "control tower", systematically collecting, evaluating and publishing data on the performance of the various parties. To increase the chances that the MDGs be realized such a "global control tower" would be indispensable. It could be formed from the resources of existing units, and wouldn't necessarily require a new body. The "control tower" should at least produce an annual assessment and recommendations for stimulating progress and its activities should be conducted in full public transparency. To ensure the right conclusions are drawn and that any necessary action is taken, the Secretary General of the UN has decided to establish a group of independent "wise persons" of acknowledged calibre and standing with the task of evaluating ongoing developments, appraising the information collected" and making any suggestions judged appropriate to achieve the water MDGs. This group has been now put in place and starts its work.

What comes next?

There is momentum for the world to take better account of its water problem. This is, nevertheless, only a good beginning and a lot more needs to be accomplished before we could be reassured about the needed steps for the implementation of the three-phase strategy the Panel has laid out for the

Kyoto Conference of March, 2003. As you remember, this strategy should go through an initial stage ending in 2006 on the occasion of the 4th World Water Forum in Mexico. This forum would provide an opportunity to review the measures endorsed at Kyoto, at the G8 meeting at Evian in June 2003 and at the subsequent gatherings -and the actions taken to implement them-. By 2006 most of the necessary measures proposed in the report should have been taken, or should be on the way of yielding results. 2006 is also a good vantage point for making any necessary corrections of trajectory for targeting the key 2015 MDGs.

The period 2006-15 would then be the crucial second phase, containing the main push towards fulfilling the MDGs.

The third phase would be the period 2015-25, when the world community could realise the vision of universal water and sanitation, and the broader aim of water security, if the same intense effort and focus are maintained.

All of this tells us very simple things about the next indispensable steps. All actors must continue being mobilized. No one could rest on too fresh laurels. This is indeed the temptation, together with the never-ending tendency to return to "business as usual", particularly as the pressure of competition to stimulate official lenders is pretty low. Of course everybody could find plenty of justifications for not moving too far. But nobody should leave aside the invitation all actors received to double as rapidly as possible their level of financing for water: a call particularly pressing to the IFIs and the RDB in view of the central role they are invited to play to realize the water MDGs, to catalyze by their own action the reform efforts of the others and be central in promoting the public private partnership which is needed to respond to the extremely quick urbanisation of developing countries. But let me be clear. Even if a lot remains to be done by multilateral institutions, more than ever the individual countries must demonstrate their own determination to deliver on their commitments, as we are here in one of the most critical domains to improve the living condition of the poorest and to start reducing the most severe inequalities. This is true particularly when talking about industrial countries contributions to the overall financing. Nevertheless, developing countries have -if at all possible- an even more pressing responsibility. Without their determination to fully realize all what is expected from them, starting from the adoption of national water policies, the prioritization of supply and sanitation, sustainable cost recovery practices, promotion of sound governance, at national and local level, proper decentralization and effective participation of the users, particularly women, to the decision-making process, it is crystal clear that the MDGs will not be reached. Those at the contrary which could be exemplary in their progress in all these fields would have in their hands the keys of the virtuous circle which could lead to outstanding success, providing furthermore a convincing example to countries which could have been prevented to take an early start.

Water, the key for sustainable development

I have referred here to the task of the Panel I had the honor to chair: to concentrate the minds of the key players on the basic financial issues in order to effectively address the critical problems of water in the world and on the best way of solving them. The next step is about more than global strategy and money. It is about commitment and determination; but when so much is at stake, when major countries are strongly determined to promote balanced growth and when the world can rely on solid multilateral institutions to contribute to such efforts, to innovate, to create the proper instruments and

to actively catalyze reforms, one can keep the hope that these major undertakings of the world community have reasonable chances to be fulfilled, provided we don't stay on a "business as usual attitude", but we undertake resolutely the needed changes. It now depends on each of us.