Financing & IWRM: issues & actions

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IWRM: “a process which promotes the coordinated development and management of water, land and related resources in order to maximise the resultant economic and social welfare in an equitable manner without compromising the sustainability of vital ecosystems.” (GWP)
Three aspects of the question

- IWRM concerned with good governance of water sector: governance attracts finance
- All aspects of the water sector need proper funding, especially “public goods”
- Implementing IWRM process itself needs funds, which can show high returns
I. IWRM, governance & finance

• Camdessus Report stressed (half its proposals!) that water sector urgently needs thoroughgoing reforms to make it a more credible channel for more funding, & to generate more funds itself.

• Investment in major infrastructure benefits from coherent policies, the right legislative framework, and appropriate management instruments.

• Good governance can reduce the need for finance by saving money, e.g.
  - change in policy avoids expensive new investment
  - creation of a regulatory system results in more competitive bidding.
II. Financing public goods

- Many IWRM components are “public goods”: services with large public benefits which cannot be captured by private agents: therefore, public funding needed.
- Other services have strong “externalities” which justify public intervention.
- Examples: research, data collection, planning & policymaking, watershed conservation, flood protection, habitat & biodiversity protection, pollution control.
III. Funding IWRM itself

- Secure budgetting needed for core IWRM processes: e.g.
  - creation of enabling environment through policy setting, legislative changes, investment policy:
  - Formation of new institutions: national apex bodies, transboundary agencies, RBOs, regulators, arbitrators: building new capacity to manage unfamiliar roles
  - Building a water resources knowledge base; ecosystem assessment; IWRM plans, risk & environmental assessments
  - Public awareness & education; social mobilisation, Demand Management programmes.
  - economic and financial tools: tariffs, pollution charges, water markets, subsidies & incentives.
- IWRM can show high returns: financing a process leading to successful reform can generate its own funds and facilitate the acquisition of others:
  - good data base & monitoring a precondition for infrastructure investments.
  -regulation & dispute procedures reassure private investors
  -virtuous circle - more finance for productive projects improves long term cash generation through cost recovery.
  -pollution charges provide revenue for environmental management
  -demand management programmes delay need for more investment
Elements of financing strategy

- cherry-picking. Maximise flows for projects that are capable of attracting their own funds (W&S, irrigation, hydropower). New money can release existing funds for use elsewhere (fungibility).
- public budgets used for “public goods” and strong externalities
- external aid for writing IWRM plans (but keep local ownership)
- co-financing and cross-subsidies for shared activities (e.g. transboundary management; multipurpose schemes)
- charge users for services rendered (RBOs, regulators, data supply)
- taxes, charges, subsidies to reflect externalities from water management
- bundling of functions & services, to allow cross-subsidy from revenue-earners to “public good” services (e.g. Laguna de Bay, income from fishpen licences & fines subsidises other services. But authority has to have financial autonomy).