

## Summary Report on the thematic session 2 “Sustainable Financing”

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**Financial arrangements are different at each stage of the development process and are unique to each situation.** The experience with transboundary lake/basin management shows that at the “initiating” stage, when the transboundary institutions are being established, often external funds finance initial costs. External funding has played an important catalytic role in fostering political commitment among riparian countries for cooperation. Two unique cases, where initial costs were financed by domestic resources, include: Constance Lake and Prespa Lake. In the former, initial costs were borne by the riparian countries themselves; and in the later case, the initial costs to start negotiations were financed by local NGOs and local municipalities. During the “up-and-running” stage, when transboundary institutions are implementing their operational programs, administrative and operational costs are often financed by external funds until the institutions reach maturity. At this point, these costs are assumed by riparian countries. During the “action plan implementation” stage, which often involves substantial infrastructure investments, construction costs are often financed by concessional and grant financing but operation and maintenance costs are financed by user fees.

**Domestic funding sources matter.** There is a general agreement that public good functions of transboundary institutions need to be funded from riparian government budgets. If transboundary institutions are expected to raise external funds to perform their basic core functions, there is a high risks that they would be distracted from their main tasks. Here is where external support could make a difference. Donor community may consider providing financial support on a declining basis until new structures reach maturity (4-5 years). Expectations that the structures can be on their own after 3 to 4 years may not be realistic. Riparian governments in turn must provide a minimum core funding for the cooperation arrangements to have a chance to success.

**Sustainability issues must be addressed up-front.** The sustainability of transboundary institutions must be addressed right from the beginning. When setting transboundary institutions, two principles should be kept in mind: first, be realistic on what is affordable by the riparian countries; and second, do not create structures that conflict or overlap with the mandate of existing institutions. Lake/basin transboundary institutions need to be cost-effective and efficient, and they should be established only if there is a real need for them and if they indeed add value. Their size and composition should be consistent with available budget. Formulation of business plans should be done at the initial phase, setting clear goals, objectives, and monitoring and evaluation programs, so performance of transboundary institutions could be assessed against specific indicators.

**Traditional and innovative financial arrangements are important.** While so far, traditional approaches have been mostly used in the Balkans region, there is a general agreement that both traditional and non-traditional financial arrangements need to be considered by transboundary institutions. Economic sectors in the watershed, such as agriculture, tourism, fishery, hydro-power, navigation, among others could generate funds for covering the operational costs of transboundary institutions. However, it is

extremely important that the transboundary water institutions demonstrate the value-added from their services, and who benefit from transboundary cooperation creating willingness from users to pay for their operating costs. Lack of enabling legislation may prevent revenues to stay at the local level. Riparian countries must find the right balance between incentive regulation mechanisms and revenues; otherwise the so-called innovative mechanisms may cause more damage than good. While demand for external funding to support initial stages is growing and available resources are shrinking, Balkans countries may want to consider mobilizing EU Instruments for Pre-Accession assistance allocated to the area of transboundary cooperation to support transboundary lake/basin initiatives.

**The weak capacity of local utilities is often a constraint to absorb concessional/grant financing for investments in water supply and wastewater.**

Thus, one of the tasks of transboundary institutions is to mobilize support to improve financial and technical performance of local utilities.

**Riparian countries, however, need to be careful with grant financing, because they can distort investment decisions by discouraging least-cost and affordable alternatives.** Local governments need to be involved in the decision making process, particular when decisions involved costly water-related infrastructure that they need to operate and maintain and the operation and maintenance costs must be financed by users.