SWA 2017 HLM Preparatory Webinar on Financing

7 and 8 February 2017
Update on Sector Minister’s Meeting

Cindy Kushner, UNICEF
SWA Webinar 7 and 8 February, 2017
The objectives of the SMM are:

- **Raise awareness** among Ministers of the challenges of the WASH targets of the SDGs and the changes required to meet them

- Follow-up on and exchange learning on the **building blocks of a strong sector** (presented at the 2016 SMM) - in terms of financing, institutions, capacity, planning, and policy and strategy - that support progress and development effectiveness in order to eliminate inequalities and achieve sustainable universal access

- Enable Ministers and senior representatives of development partners to discuss the essential **collaborative behaviours that foster increased development effectiveness**

- Discuss **attracting and utilizing adequate finance**, in advance of the Finance Ministers’ Meeting
Anticipated Outcomes

- **Agreement on follow-up action** by SWA Partners at country level that reflect the key foundational elements and behaviours discussed at the meeting.

- **Shared understanding and agreement on a framework for action** for the sector that includes an articulation of both what building blocks need to be put into place in countries, and how stakeholders should work together.
Update on Finance Minister Meeting 2017
The 2017 Finance Minister Meeting

**Who:** ministers of finance and sector ministers were requested by ministers of finance; through SWA constituency processes selected: heads of development cooperation, development banks, UN partners, civil society and private sector representatives.

**Where:** The World Bank, Washington DC

**When:** A two hour meeting on or around the 20th of April 2017

**What:** Financing universal access – through a mix of efficiency gains and additional financing sources mobilized by countries

**How:** Extensive dialogue in-country and internationally between now and April 2017
Defined by three substantive topics

**Estimating the Magnitude of the Challenge**
- Why is SDG 6 important?
- What is the financing gap?
- Why has the gap not been filled?

**Using Existing Resources More Effectively**
- How are tariffs and taxes currently being used in the sector?
- What are the key policy trade-offs by sector and sub-sector?
- How can service providers be made more efficient?

**Filling the Financing Gap for Universal Access to Water and Sanitation**

**Accessing New Resources for the Sector**
- How can commercial finance help address the financing gap?
- How can commercial finance be leveraged?
Recap of preparatory process and
Elements of the preparatory process

Suggested content of ministerial briefs & country overviews
i. SDG synthesis; ii. Sector readiness; iii. Financial analysis; IV. Planned actions

Ministerial briefs  Country Overview

Ongoing country dialogues using coordination meetings, JSRs, etc

Nov  Dec  Jan  Feb  Mar  Apr
Webinar 1: Overview of 2017 HLMs  Webinar 2: SDG Financing  Webinar 3: Sector and finance review
Guidance note

Country level actions

Supportive materials

‘Input paper’  Preliminary JMP data  SWA Collaborative Behaviors Country profiles

GLAAS Report

FMM  SMM
SWA Collaborative Behavior Country Profiles

SWA Webinars
Prepared by WHO
February 2017
The SWA Collaborative Behaviors

- Enhance government leadership of sector planning processes
- Strengthen and use country systems
- Use one information and mutual accountability platform
- Build sustainable water and sanitation sector financing strategies
Brief History

• Discussions initiated at the SWA CPTT meeting in the Hague in December 2014

• Followed up at the SWA GMHTT meeting in East Kilbride in March 2015 and every subsequent CPTT and GMHTT meeting

• WHO GLAAS leading the monitoring strategy in close collaboration with WaterAid and input from key experts

• Open and consultative process for indicator development

• Presentation of first five country profiles as ‘proof of concept’ with preliminary results in Addis at the SWA Ministerial Meeting in March 2016

• Based on feedback and consultations from key partners and country government focal points, a set of indicators has been developed

• Need and importance of this work recognized and SWA HLWG requested scale-up of the country profiles

• Profiles being prepared by WHO and will feed into the HLM country preparatory process
About the SWA Collaborative Behavior country profiles

• Highlight developed indicators for monitoring government and development partner performance regarding the Collaborative Behaviors
• Indicators for both governments and development partners
• Present how country governments and development partners are applying the behaviors side by side
• Highlight unavailable information from both governments and development partners, providing an opportunity for in-depth discussions
• Take stock of existing data sources: GLAAS, OECD, CPIA and PEFA
• Aim is to encourage deeper discussions on more effective collaboration and strengthening of the national WASH sector
Profiles from 2016 HLM

AFGHANISTAN

OVERVIEW—SUMMARY OF COLLABORATIVE EFFORTS

1.政府已经制定了一项全面的经济和社会发展计划。
2.该计划包括教育、卫生和基础设施建设。
3.该计划旨在提高阿富汗人民的生活水平。

COLLABORATIVE BEHAVIOR

1. 政府与国际组织和私营部门合作开发项目。
2. 这些项目涵盖了教育、卫生和基础设施建设。
3. 合作伙伴包括联合国、世界银行和私人投资者。

BEHAVIOR 1

ENHANCE GOVERNMENT LEADERSHIP OF SEC

INDEX

1. 政府领导层的增强。
2. 政府在教育、卫生和基础设施建设方面的领导力。
3. 政府在推动可持续发展方面的领导力。

BEHAVIOR 2

STRENGTHEN AND USE COUNTRY SYS

INDEX

1. 政府在环境保护方面的作用。
2. 政府在促进可持续发展方面的领导力。
3. 政府在推动国际合作方面的领导力。

BEHAVIOR 3

USE ONE INFORMATION AND MUTUAL ACCOUNTABILITY PL

INDEX

1. 政府在环境保护方面的作用。
2. 政府在促进可持续发展方面的领导力。
3. 政府在推动国际合作方面的领导力。

AFC

BUILD SUSTAINABLE WATER AND SANITATION SECTOR FINANCING STRATEGIES

INDEX

1. 政府在环境保护方面的作用。
2. 政府在促进可持续发展方面的领导力。
3. 政府在推动国际合作方面的领导力。
## Example: using the country profile to catalyse actions

<table>
<thead>
<tr>
<th>Collaborative Behaviour</th>
<th>Government</th>
<th>Development Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Enhance government leadership of sector planning processes</td>
<td>★★★★☆☆</td>
<td>Not available</td>
</tr>
<tr>
<td>2. Strengthen and use country systems</td>
<td>★★★☆☆</td>
<td>★★★★☆☆</td>
</tr>
<tr>
<td>3. Use one information and mutual accountability platform built around a multi-stakeholder, government-led cycle of planning, monitoring, and learning</td>
<td>★★★★★</td>
<td>★★★★★☆</td>
</tr>
<tr>
<td>4. Build sustainable water and sanitation sector financing strategies that incorporate financial data from taxes, tariffs, and transfers as well as estimates for non-tariff household expenditure</td>
<td>★★★☆☆☆</td>
<td>★★★★★☆</td>
</tr>
</tbody>
</table>

### Example actions

- Government will make procurement procedures more transparent and development partners will progressively increase the use of these systems.
- Government will develop a financing strategy which takes into consideration the 3Ts.
Thank You

www.sanitationandwaterforall.org
SWA HLM Preparatory Process
Addressing the Financing Gap for Universal Access to Water and Sanitation

1. Understanding the Challenge
What was achieved during the MDG era? What is different with SDG6?
How much will it cost to expand access and sustain gains?

2. Making More Efficient And Effective Use Of Existing Financial Resources
• How can service providers be made more efficient?
• How are tariffs, taxes & transfers currently used in the sector?
• Can they be increased and better allocated?

3. Easing the Transition to Increasing Domestic Private Finance
• How can commercial finance help address the financing gap?
• How can commercial finance be leveraged?

4. Defining an SDG Financing Strategy
The SDGs represent a new and different challenge for the water sector

Millennium Development Goals

Reduce by half the proportion of people without access to water and sanitation against 1990 baseline

Three main shifts with SDGs:

1. **Universal coverage:** From halving proportion without access to universal access
2. **Comprehensive coverage:** From focus on WSS to considering whole water cycle
3. **Sustainable coverage:** From basic access to sustainable services
4. **Financing:** Greater need to leverage additional sources of finance

Sustainable Development Goals

Achieve **universal access** to affordable and safe water and sanitation by 2030

Improve water **quality**

Increase water use **efficiency**

Implement integrated water resource **management**

Protect and restore water-related **ecosystems**
Reaching universal access will require at least tripling investments compared to MDG period

Approximately $35 billion were invested per year to expand access between 2000-2015

Total capital investment to deliver universal access to safely managed WASH around $114 billion per year

Sanitation accounts for 60% of estimated costs, including 40% for urban sanitation alone. Expenditure on urban sanitation needs to double for basic & quintuple for safely managed.

The sector requires additional/improved revenue sources AND greater efficiency

**Spending requirements**
to reach universal access are substantially higher than what was invested in the MDG era

**Reaping operational efficiency gains**
in the sector would free up resources, even without tariff increases, reducing capex needs

Governments need to decide how funding will be generated: from a mix of tariff and taxes

- Tariffs/users charges should be optimized
- Taxes need to be allocated and well-used
- Greater efficiency will free up resources

**Governance arrangements** impact revenues, efficiencies and the ability to secure additional revenues

**Greater coordination** of public finance and concessional resources can also leverage additional finance

Given the scale of investment required, **repayable financing** will be needed, particularly from domestic private sources.
Improving operating efficiency is the first step towards a sustainable water sector

Service providers must reduce costs and free-up wasted resources

Invest in more capital-efficient solutions
Implement asset-management systems
Reduce non-revenue water
Improve collection rates
Reduce energy costs
Maximize reuse and resource recovery
Professionalize staff
Enhance governance arrangements

Sustainable water sector

Private finance mobilized to increase investment capacity
Investments in new access expand revenue base
Subsidies for new access provided in transparent and targeted manner
System assets adequately maintained
Service providers fully cover operating costs
Consumers use water more efficiently
Tariffs increased to cover greater portion of efficient costs
More satisfied customers = more willing to pay
Service quality improves
Reduced losses: reduced costs
Technical efficiency improves
Staff and managers rewarded for improved performance
Staff motivation improves

WORLD BANK GROUP

Water
## Funding and Financing to the Sector

### Funding sources ("3Ts")

<table>
<thead>
<tr>
<th>Source</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tariffs</strong></td>
<td>User fees for services provided and households’ investment for self-supply</td>
</tr>
<tr>
<td><strong>Transfers</strong></td>
<td>Transfers from external sources, such as international donors (ODA grants), foundations, NGOs, remittances</td>
</tr>
<tr>
<td><strong>Taxes</strong></td>
<td>Domestic taxes levied by local and central governments and provided as grants or subsidies</td>
</tr>
</tbody>
</table>

### Repayable financing

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Concessional finance</strong></td>
<td>Provided by development agencies with a grant element (e.g. &quot;soft loans&quot;)</td>
</tr>
<tr>
<td><strong>Private finance</strong></td>
<td>Provided by private sector financiers at market rate (vendor finance, microfinance, loans, bonds, equity)</td>
</tr>
</tbody>
</table>

### Key

- Private funds
- Mixed public and private funds
- Public funds
Direct user payments should be the predominant funding source for the sector

Tariffs
User charges
Household contributions / investments in self-provision

Tariffs are the most sustainable source of funding over time

Covering a greater portion of costs via tariffs would allow more sustainable sector financing and would boost creditworthiness

Mobilizing revenue directly from customers creates incentives to improve service delivery, which in turn leads to improved revenues

Tariffs should be set to balance affordability, efficiency and cost recovery

Tariffs could cover a greater share of efficient costs if targeted connection charge subsidies and social consumption tariffs are introduced

Willingness to pay is there: customers served by informal providers pay much higher charges than those who are connected to main utilities

Consumers are, in general, willing to pay for reasonable, efficient services
What does not come from tariffs must come from taxes

Public funding to WASH sector is needed

For strong water sector governance: policy, planning and budgeting, monitoring
To invest in services with strong externalities to ensure that all society benefits (e.g., sanitation)
To extend services to those who need it most, on equity grounds (e.g., low income disadvantaged)

The effectiveness of public taxes needs to be improved

Mobilize dedicated taxes for WASH services, with associated revenue streams
Key sector functions (e.g. regulation, monitoring) need to be adequately funded
Assign taxes to public investments with greater benefit/cost ratio and greater number of people served
Subsidies should be predictable, transparent and well-targeted
All countries, regardless of their state of development, need repayable financing

Water service provider’s finances

<table>
<thead>
<tr>
<th>Costs</th>
<th>Funding</th>
<th>REPAYABLE FINANCING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital maintenance</td>
<td>Financing gap</td>
<td>Concessional finance</td>
</tr>
<tr>
<td>Financial costs</td>
<td>Transfers</td>
<td>Commercial finance</td>
</tr>
<tr>
<td>Operation and maintenance</td>
<td>Taxes</td>
<td></td>
</tr>
<tr>
<td>Investment costs</td>
<td>Tariffs</td>
<td></td>
</tr>
</tbody>
</table>

Traditionally, bulk of repayable finance for water came from concessional finance, i.e. from development finance institutions with a grant element.

To meet the SDGs, commercial finance needs to be leveraged with a particular focus on domestic commercial finance.
Options for private finance not limited to MICs

Size of financing needs

- Large
- Medium
- Small

Size of borrowers

- Households
- SSIPs
- Communities
- Medium sized entrepreneurs
- Utilities / Municipalities

- Bonds
- Commercial Bank Loans
- Vendor / Supplier Finance
- Microfinance
### Blending increases private finance opportunities

**BLENDING:** smart public finance to leverage private finance

<table>
<thead>
<tr>
<th>Grants / subsidies</th>
<th>Concessional loans / public finance</th>
<th>Credit enhancements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Results-based subsidies, e.g. to support access extension</td>
<td>Provide liquidity to commercial finance providers</td>
<td><strong>Guarantees:</strong> reduce risk perception, leading to lower interest rates and longer tenors</td>
</tr>
<tr>
<td>Capacity-building and training, e.g. training of borrowers and lenders</td>
<td>Blend concessional with commercial finance to soften lending terms</td>
<td><strong>Revenue intercepts, escrow accounts:</strong> to secure access to funds and reduce risk of non-payment</td>
</tr>
<tr>
<td>Technical assistance, e.g. sensitize banks to market opportunities, assess water investment projects, project preparation, shadow credit ratings</td>
<td>“First loss” agreements</td>
<td></td>
</tr>
<tr>
<td>Support water sector pooling / grouping to access larger commercial finance providers</td>
<td>“Patient capital”: equity participations at below market-rate return expectations can signal commitment</td>
<td></td>
</tr>
</tbody>
</table>
Progressive approach needed to meet SDGs

1. Starting point
   Define water SDG strategy. Strategic financial planning.

2. Cost savings from efficiency
   Lower Opex and maintenance costs, Capex efficiencies

3. Mobilize domestic revenue sources
   Raise tariffs and user charges. Mobilize domestic taxes and catalytic loans and grants.

4. Mobilize financing from multiple sources
   Leverage commercial finance with blending

5. Services financed sustainably going forward
   Water SDG achieved

- Costs
  - Capex
  - OPEX and maintenance
  - Taxes

- Funding
  - Financial costs
  - Financing gap
  - Concessional
  - Tariffs

<table>
<thead>
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<td>Taxes</td>
<td>Concessional</td>
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<tr>
<td>Tariffs</td>
<td>Tariffs</td>
</tr>
<tr>
<td></td>
<td>Targeted taxes only</td>
</tr>
<tr>
<td></td>
<td>For ongoing capex needs</td>
</tr>
<tr>
<td></td>
<td>Tariffs recover a large part of the costs</td>
</tr>
</tbody>
</table>
Take Away Messages: Sector Ministers

Assess the magnitude of the challenge
• Support Strategic Financial Planning exercises

Help the water sector “get its house in order”
• Support improvements in governance and regulation
• Give incentives for improved technical and financial efficiency
• Maintain AND expand infrastructure

Allocate sufficient resources to the water sector
• Find the appropriate mix of funding sources
• Develop a financing plan using the mix of funding sources
• Enforce the financing plan (amongst all parties including donors)
• Maximize the impact of public / concessional finance while blending with private financing
Support the transition to a mix of private finance

- Incentivize service providers to tap into domestic private finance instead of waiting for inexpensive grant or donor funding.
- Limit the use of forex borrowing: all options for leveraging domestic private finance should be explored first.
- Support the development of domestic capital markets:
  - Identify potential regulations that may limit access to commercial finance for water sector investments.
  - Support access to finance for “social sectors”, including water.
- Create opportunities for prudent sub-national or utility borrowing for infrastructure investments.
- Use MDB, donor and government resources in a “smarter way” to leverage domestic commercial finance for water infrastructure.
- Start now. Commence with an incremental approach (aiming for 10 or 20% of private finance) and build on that.
Thank you