SWA Webinar

Creating a resilient and fit-for-investment WASH sector while targeting the most vulnerable and marginalized

5-6 February 2020
Creating a resilient and fit-for-investment WASH sector while targeting the most vulnerable and marginalized

Presented By: Bill Kingdom
How can the sector be sustainably financed?

**Sustainable sector financing strategies should mix funding and financing**

**Two key areas of focus**

1. **Use existing resources more effectively**
   - “Get the house in order”: reap efficiency gains to reduce costs and associated financing requirements
   - Increase and improve allocation of domestic funding sources (tariffs and taxes)
   - Improve the effectiveness and allocation of international transfers

2. **Mobilize new financial resources**
   - Leverage repayable finance, particularly domestic commercial finance
   - Blend taxes and concessional finance to gradually increase commercial finance
All countries, regardless of their state of development, need some form of repayable financing.

<table>
<thead>
<tr>
<th>Costs</th>
<th>Funding</th>
<th>Repayable Financing</th>
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<tbody>
<tr>
<td>Capital maintenance</td>
<td>Financing gap</td>
<td>Vast majority of repayable finance comes from concessional finance, from development finance institutions with a grant element</td>
</tr>
<tr>
<td>Financial costs</td>
<td>Transfers</td>
<td>To meet the SDGs, commercial finance needs to be leveraged with a particular focus on domestic commercial finance</td>
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<tr>
<td>Operation and maintenance</td>
<td>Taxes</td>
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<td>Investment costs</td>
<td>Tariffs</td>
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**Water service provider’s finances**

**Costs**
- Capital maintenance
- Financial costs
- Operation and maintenance
- Investment costs

**Funding**
- Financing gap
- Transfers
- Taxes
- Tariffs

**REPAYABLE FINANCING**
- Concessional finance
- Commercial finance

**Funding**
- PUBLIC
- PRIVATE
Funding vs Financing

Funding
- Funding is an amount of money provided by the organization or government (or customers) on the basis of an agreement. It is usually free of charge.
- The 3 “Ts”

Financing
- Financing, on the other hand, is an amount of capital or the sum of money provided to an organization with the expectation to repay, and organizations are liable to pay back the capital amount along with a certain percentage of interest.
- Commercial or concessional
Basics for a robust and realistic financing strategy

Service Levels
- What are the targets levels of service to be delivered?

Capital Costs
- What are future investment needs and timing to meet SDGs?
- What is historic investment in the sector?
- What is absorptive capacity in the sector?

Operating Costs
- What are future (increasing) operating costs?
- What is current operating cost coverage?
- What are opportunities for efficiency gains?

Financing Sources
- Central government (taxes, transfers)
- Local government (taxes)
- Customers (tariffs)
- Repayable (market) finance
Getting more from tariffs, taxes and transfers

Tariffs

- Level of tariffs – subject to affordability, service quality/willingness to pay, incidence effects
- Structure of tariffs – to improve targeting and price signals
- Cross subsidies from water to sanitation
- Other cross subsidy opportunities

RADEEMA (Marakesh, Morocco) cross subsidizes sanitation from power
Thinking about tariff structure

Yellow revenue (current): 1.5X
Red revenue (revised): 2.5X

Equal blocks

<table>
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<tr>
<th>Volumetric</th>
<th>Tariff</th>
<th>6 m3/month</th>
<th>12 m3/month</th>
<th>18 m3/month</th>
<th>24 m3/month</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td>Existing tariff structure</td>
<td>40 lpcd</td>
<td>80 lpcd</td>
<td>120 lpcd</td>
<td>160 lpcd</td>
</tr>
<tr>
<td>2X</td>
<td>Possible future tariff structure</td>
<td></td>
<td></td>
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<tr>
<td>3X</td>
<td></td>
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<td>4X</td>
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</table>
Getting more from tariffs, taxes, and transfers

Taxes

- Better targeting of existing subsidies:
  Viability gap financing for economically beneficial investments (may move subsidy from water to sanitation investments)

- New (hypothecated) taxes – typically to support sanitation
  Swachh Bharat Mission ($3Bn raised through cess)
  Tourism/environmental taxes

- Increased tax allocations to the sector
  Mali, TrackFin (1.23% in 2017 to 2.62% in 2018)

- Alternative taxes/fees
  Universal access fees in USA, France
Getting More from Tariffs, Taxes and Transfers - Green Climate Fund (GCF)

- GCF created to support the efforts of developing countries to limit or reduce their greenhouse gas (GHG) emissions and adapt to climate change.
- Aims to deliver equal amounts of funding to mitigation and adaptation.
- Launched in 2014 ($9.3 billion) supplemented in 2019 ($9.78 billion)
- Total approved GCF financing for all projects to date is $5,210 Bn for 111 projects yet WSS projects only captured $328 million financing for 8 WSS projects – just under 6% of the total.
- GCF funded WSS projects typically received grants of between 50 and 75% of total investment costs
- Safeguarding water supply and farming conditions in the Simiyu Region of Tanzania. Total investment of $159m of which $114m (72%) from GCF grant
Options for market (repayable) finance

- **Vendor / supplier finance**
- **Microfinance**
- **Commercial bank loans**
- **Bonds**

**Size of borrowers**
- **Households**
- **SSIPs**
- **Communities**
- **Medium sized entrepreneurs**
- **Utilities / Municipalities**
How service and efficiency improvements can help access market finance

- **Fully Creditworthy**: Financial sustainable + Country Conditions and Developed Financial Markets
- **Becoming Creditworthy**: Financial Sustainable + Credit History
- **Financially Sustainable**: Revenue + other Reliable Resources Cover full Cost of Service Providing and Sustaining Service
- **Operating Cost Recovery**: Profitable in Any Given Year But Not Sustainable in Long Term
- **Pay-As-You-Go Recovery of Cash Outlays**: Capital subsidies essential to keep utility afloat
- **Unviable Loss Making Utilities**: Capital & Operational Subsidies to keep utility afloat

Continuous improvements
Improving operational efficiency for financial viability – and thus access to market finance

Operating Cost Coverage Ratio >120% of O&M

- Currently viable: 15%
- Step 1: Increase collection rate to 100%: 29%
- Step 2: Reduce non-labor cost by 15%: 41%
- Step 3: Reduce non-revenue water to 25%: 65%
- Step 4: Increase revenue by 10%: 77%
Increasing access to, and amount of, repayable finance

Results based financing:
- Sanitation OBA in Kenya

Partnering with the private sector in urban services (repayable finance through long term PPP agreements)
- Hybrid annuity model for WWTP in India
- BOTs for WWTP in China

Provision of guarantees/transparency to encourage market entry and improve borrowing terms
- Credit ratings for utilities
- Philippines water revolving fund
- K-rep bank Kenya
- Dakar, Senegal, ONAS provides guarantees that enable pit emptiers to buy improved equipment
Increasing access to, and amount of, repayable finance

- Encouraging market for sanitation microfinance (repayable finance at household level):
  - Water.org’s Water Credit (through partners): $1.8Bn in total.
    - Sanitation 58.4%,
    - Water 31.3%,
    - WatSan 7.2%, (combined loans)
  - Water Credit Investment Fund – blend of philanthropic, social and concessional funds using mix of equity, debt and first loss guarantees. Total of $111million raised.

- New models of service delivery (repayable finance through service fees):
  - Container based sanitation where financing recovered from user fees

- New sources of finance:
  - Social impact bonds for blending with non-concessional finance
Credit Enhancements – To de-risk investments and improve underlying credit (Urban opportunities)

Can be obtained through various means - Internal (within Utility/Government) or External (creditworthy agencies such as WB):

A. Escrow Accounts – DSRA, Liquidity Accounts, etc
B. Government Revenue Intercepts
C. Asset or Cash Flow collateral
D. Partial Credit and Risk Guarantees
Improving affordability through blending (incl. using credit enhancements)

Annual amortized repayment by interest rate
($100 loan, 15-year tenor)

15%  
10%  
5%

Annual amortized repayment by tenor
($100 loan, 10% interest rate)

10 years  
15 years  
20 years
Thinking particularly about sanitation

- Network sanitation systems are more expensive than network water systems
- Willingness to pay for sanitation lower than for water services
- Externalities from improved sanitation are significant – health, environment, education
- Current investment levels insufficient to meet sanitation SDGs so new sources of funding and financing are urgently needed

⇒ Financial challenges are greater in sanitation than in water supply
⇒ Economic benefits are greater in sanitation than in water supply and need to be explicitly capture

⇒ Overall challenge is greater in sanitation than water but there are fewer established institutional/service delivery arrangements and financial models hence more opportunity to be innovative
Saving a $ Easier than Raising a $

- Use of capital efficient solutions:
  - Condominial systems 60% of cost of traditional sewers
  - On site provision – sanitation
  - Off grid provision – water supply

- Use consumption subsidies differently:
  - On site service providers
  - Directly to consumers to choose
  - Not just to utilities
Developing a robust and realistic Financing strategy requires:

- Understand the current situation – OPEX and CAPEX levels and sources of funding/financing
- Set out future levels of service
- Prepare realistic estimates of future funding/financing requirements – both OPEX and CAPEX
- Quantify the gap in OPEX and CAPEX requirements
- Consider realistic sources of funds/finance for future needs – taxes, tariffs, transfers and repayable finance
- Develop a financial model which allows user to make different assumptions both on the cost side (efficiency, timing, level of costs) and the financing side (funding/financing sources, levels, accessibility)
- “Play tunes” on the model to come to a realistic equilibrium that has buy in from all stakeholders – this may mean longer implementation periods
- Write a financing strategy that captures the above!

In Summary
Q&A
Nigerian Sector and Financial Strategies to Deliver SDGs: OPS-WASH

Dr. Nicholas Igwe
OPS-WASH
Nigerian Sector and Financial Strategies to Deliver SDGs: OPS-WASH

Prepared by Dr. Nicholas Igwe

opswash.com

@OPSWASH1
Nigeria’s SDG-6 Vision
New Developments in WASH Sector Planning

Nigeria has shown strong political commitments toward improving water, sanitation and hygiene by 2025, and 2030 respectively through the following key actions:

1. Launching of the PEWASH Framework 2016
2. Declaration of a State of Emergency by President Muhammadu Buhari 8th November 2018
3. Launching of the ‘Clean Nigeria: Use the Toilet’ Campaign to end open defecation by 2025
4. Presidential signing of Executive Order 009 to end open defecation by 2025
Unlocking Private Sector Potential Through ‘One Body With One Goal’

The private sector in Nigeria is the country’s powerhouse. With over 41.5 million in number, Micro, Small and Medium enterprises (MSMEs) make up 96% of businesses; contribute 50% to the national GDP and account for 77% of the national workforce giving jobs to about 60 million people.

• In Partnership with UNICEF and the Federal Ministry of Water Resources OPS-WASH (Organized Private Sector in Water Sanitation and Hygiene) created to:
  • Boost ‘traditional’ private sector engagement
  • Take steps toward broadening traditional perceptions of PS composition
  • Create a collaborative space for all industries and sectors in WASH
  • Show that Private Sector Government collaboration in WASH will bridge financial gaps.
The general expectation of impacts is to generate tangible commitment from participants to support the nation-wide campaign through Sanitation Adoption. Sanitation Adoption implies committing to fund the supply of a much-needed toilet infrastructure to segmented low-income households as well as to public spaces in which people do not have access to safely managed toilet facilities.
Expected Outcomes: Financing Strategies

- **Nigerians in Diaspora Commission**
  2 million Nigerians in Diaspora to adopt households or communities to provide needed toilet/water infrastructure

- **Financial Institutions-Sanitation Financing**
  Sanitation Financing with Micro-Financing Institutions; Community Savings and Credit Group to provide affordable sanitation loans

- **Institutional/Organizational Adoption**
  Organizations to leverage resources from their Corporate Social Responsibility portfolios.

- **Telecommunications Organizations**
  Telecommunications businesses to commit to promoting the message of the *Clean Nigeria: Use Toilet campaign.*

- **Philanthropic Adoption**
  Philanthropic organizations have also in the past, supplied water and toilet facilities to some communities.
Using the OPS-WASH structure to assist the Nigerian Government with Financial Strategies in WASH

- Boosting and harnessing the potential of the PS for improved financing and meaningful contributions in the sector
- Leveraging on the efficiency, effectiveness, skills and financial resources of the WASH PS as the driving force for achieving the SDGs
- Creating awareness of the profitability in investing in WASH
- Showcasing and promoting broadened PS models while infusing business language such as profit, revenues, market share in social or environmental perspectives of WASH
Thank you!

Prepared by Dr. Nicholas Igwe
opswash.com

@OPSWASH1
Tanzania

Ms. Rebecca Budimu
TAWASANET
Tanzania SWA Case Study.

05 February 2020
CURRENT SITUATION

Progress is below target, not on track to reach SDG 6.

• Basic w/supply rural is 64% (2019) V/S a target of 85% by 2020.

• Progress for urban w/s is higher but still behind target by 10% in target.

• Safely managed sanitation nationally is 21% v/s target of 40% by 2020/21.

• Resources pledged for WSDP Phase II (2016-2021) are US$ 1.9 billion v/s requirement of US$ 3.3 billion.

• Significant additional investments, more efficient utilization of available sector funds, and widening of the sector financing base are needed.
1. **Intensive nation-wide Sanitation and Hygiene BCC Campaign**

- Started with a National Call to Action (‘Nipo Tayari’ – I’m Ready) where national leaders and thousands of local leaders publicly committed and increased efforts to the Campaign.

- Progressed with a Mass communication component termed: ‘Nyumba ni Choo’ (A house is not complete without a toilet).

- Has led to:
  - Increased National Funding commitment and expenditure for sanitation & hygiene incl. World Bank PfR Programme
  - Increased commitment and funding at sub-national level.
MEASURES TAKEN 2

2. Establishment of a National Water Investment Fund (NWIF):

• Established since 2017 by the act of parliament, to improve funding for Rural W/s which was lagging behind.

• Acquired through setting aside 50 Tanzania cents from every litre of fuel sold,

• Managed with MOW close supervision
3. Study on Sector Financing & Equity 2018

Origin of the Sector Financing Agenda Point: MoW Management Retreat in July 2017: “Rethinking our Ways of doing Business

- **Purpose of the study**: to widen the Sector’s financing opportunities and ensure an equitable allocation of resources, for Tanzania to achieve the SDGs 6 targets, leaving no one behind.

- **Six key action areas were identified and agreed upon**: 1. Projects and Contracts Management 2. Institutional Strengthening (esp. RUWASA) 3. Sector Financing and Equity 4. Water Security (quantity and quality) 5. Data availability and reliability 6. Cooperation and coordination internally and externally

- **Study’s approach and its key actors**: Included a) Appointment of Ministry’s “Water Sector Financing Team” (WSFT) b) Expert support by 2 Consultants c) Stakeholder Consultation

**Study’s deliverables**:
- Geo-equity Matrix
- Funding Landscape
- Funding Compendium
- Equity Guidelines
MEASURES TAKEN 3 (Cont’d)

Geo-Equity Matrix – Themes and Indicators

• THEME 1. Water Resources Management
• THEME 2. Water Quality Management
• THEME 3. Water Supply in Urban areas
• THEME 4. Water Supply in Rural areas
• THEME 5. Sanitation in Urban areas
• THEME 6. Sanitation in Rural areas
OUTCOME OF THE FINANCING STUDY

Water Sector Funding Landscape per December 2018

i) Current Funding Modalities are: a) Govt funding (including NWF); b) Earmarked (Direct to project) funding; c) Basket (pooled) Funding; d) Private sector, e.g. Loans, PPP (PPP Guidelines); e) Innovative funding (e.g. OBA-KfW; Results Based – DFID & World Bank)

f) Implementing Agencies Own source funding (e.g. Basin Water Boards, Water Supply & Sanitation Authorities, Rural Water Supply Agency (RUWASA), EAs and LGAs).

ii) Established a Water Sector Funding Compendium per December 2018:

• A database of potential financing options for the water sector accessible to Tanzania; Guides on potential funding sources, listed with indication of financing eligibility criteria, application procedures etc.
Examples of Successful Financing Applications

A recent success story:

• In 2017, NEMC with support from GIZ-Water was accredited as the national applicant to the Climate Change Adaptation Fund (UNEP)
• The available envelope for Tanzania is $10M. • NEMC invited implementers to submit project concepts
• In 2018, NEMC Received 96 concept notes, 10 were shortlisted, 3 qualified (Bunda DC ($1.4m), Kongwa DC ($1.2m) and SUA ($1.28m)
• Support to develop project proposals: $30,000 /beneficiary.
Next Steps

• Dissemination of the Tools to the users (MoW, DPs & Implementing Agencies)
• Strengthening MoW’s “Water Sector Financing Team” (MoW & DP)
• Create a support facility for users of the Tools (MoW & DPs)
• Scheduled updating and upgrading of the Tools
• GIS-based mapping system for Geo-Equity information (MoW & GIZ)
Q&A
Reviewing and reporting on your commitments

The SWA Mutual Accountability Mechanism
Reviewing commitments at the national level

Commitments made through the Mutual Accountability Mechanism, whether by governments or by other partners will be subject to regular review through multi-stakeholder national review processes, such as the Joint Sector Review, or other national processes.

Using these national review processes, SWA partners review whether commitments have been achieved, share challenges they have encountered and celebrate successes.

This review process is critical to ensuring stronger commitments (and better planning) in the country during subsequent cycles of the national planning and review processes.
Reporting on commitments to the global platform

When a partner makes a commitment, it is submitted to the SWA commitments database and presented on the SWA website under the respective country page.

Once a commitment has been reviewed, this should also be submitted to the SWA database, to be presented on the website.

Governments and other partners will receive a link to each commitment that they have made, and will be requested to submit a brief report on progress towards each commitment, based on existing national reviewing and reporting processes. The following slides show the reporting form.

If you have not received the link, or if you have any questions, please let the SWA Secretariat know!
Reporting on commitments

This form is for reporting on the achievement of commitments under the SWA Mutual Accountability Mechanism. All responses will be made publicly available on the SWA website.

In the creation and review of commitments, SWA promotes multi-stakeholder debate, and commitments are expected to be made and reviewed through multi-stakeholder processes.

Provide a progress update on each of your commitments using a link provided by the Secretariat.
Reporting form

Give a short description of the progress made, including challenges, bottlenecks, successes *

Please attach the evidence for the level of achievement given above
This can be a report, meeting minutes, data, budget, policy, etc.

Attach file

Who has been involved in reviewing the commitment?
Partners who have involved more than three constituencies in the review process are SWA Gold Standard

- Government
- Civil Society
- Private Sector
- Research and Learning Institutions
- External Support Agency

When do you next expect to report on this commitment?

yyyy-mm-dd
Reporting form

When do you next expect to report on this commitment?

yyyy-mm-dd

Name of reporter *

SWA requires there to be a contact person who is responsible for reporting on this commitment from the institution holding the commitment.

Organisation *

Email *

Submit

Never submit passwords through this form. Report malicious form
THANK YOU!

#2020FMM

FINANCE MINISTERS’ MEETING