

ABOUT THE “SWA QUARTERLY NOTES – PART OF THE SOLUTION”

These Notes are short pieces to highlight issues of strategic importance for water, sanitation and hygiene, to advance the discussion on specific solutions to the issues, and situate SWA within the progress being made. These notes are meant for SWA’s institutional partners, the overall SWA partnership, the SWA Secretariat and, more broadly, the water, sanitation and hygiene sector. In each Note, the conceptual considerations will be illustrated by testimonials from across SWA partner countries.

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QUARTLERLY NOTES

GETTING THE HOUSE IN ORDER

Linking better governance to increased attractiveness of the water, sanitation and hygiene sector

Introduction

One of SWA’s three [Strategic Objectives](#) 2020 – 2030 is to “rally stakeholders to **strengthen system performance and attract new investments**”. SWA’s approach to attaining this Objective consists of several elements including working to strengthen the sector’s **enabling environment**, with a key focus on accountability, transparency, integrity and performance; **advocating** for increased investment in the sector; supporting the development of financing **strategies**, identifying **new sources** of finance and **making existing sources more efficient** and expanding sector **capacity, knowledge and expertise**.

These elements’ desired impact is to ensure that the water, sanitation and hygiene sector is well governed and receives the financial attention necessary to achieve the Sustainable Development Goals, and reach all, everywhere and always. This Note summarizes the evidence base and presents country examples that illustrate the above link between good governance and better financing for the sector.

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Understanding the link between sector performance and financing

The social, economic and political benefits of investing in water and sanitation have been resoundingly emphasised in the past few years, from the Sanitation and Water for All partnership's [Finance Ministers' Handbook](#) 2020 to the oft-repeated figuresⁱ – For every \$1 invested in water and sanitation, at least \$4 is returned in increased productivity; Loss of productivity due to water- and sanitation-related diseases costs many countries up to 5% of GDP; and Universal access to safe drinking water and adequate sanitation and hygiene would reduce the global disease burden by 10%.

Despite this strong evidence base, financing for water and sanitation is woefully low in view of the needs, the available financing is ill-spent (with too much emphasis on services and not enough on systems), the sector is difficult to enter for new players, and is not attractive to other potential sources like climate finance and private actors.

At the beginning of the SDG eraⁱⁱ, it was estimated that current levels of financing could cover the capital costs of achieving universal basic service for drinking water, sanitation, and hygiene by 2030; but the capital investments required to achieve the water supply, sanitation, and hygiene SDGs (providing for safely managed services) was estimated at three times those investment levels. The simple availability of adequate financing is not enough and “sustained universal coverage requires more than capital inflows: financial and institutional strengthening are needed to ensure that capital investments translate into effective service delivery”. With time, the costs of operating the new infrastructure built exceed the annual capital cost requirements to meet those remaining unserved. This demands that institutions and regulations be strengthened. Innovative solutions and multistakeholder collaboration are needed to make the difficult and complex decisions. For example, tough choices need to be made between achieving basic services for the unserved versus bringing better services to those already with basic services.



i Waterpreneurs; 2018; Innovative finance for scaling-up water, sanitation and hygiene market-based solutions.

ii Hutton and Varughese; 2016; The costs of meeting the 2030 sustainable development goal targets on drinking water, sanitation and hygiene. Hutton and Varughese; 2016; The costs of meeting the 2030 sustainable development goal targets on drinking water, sanitation and hygiene.

iii WaterAid; 2015; Essential element: why international aid is still a critical source of finance for many countries

iv World Bank; 2015; Tapping the markets

v World Bank Group; 2016; Aid flows to the water sector – overview and recommendations.

vi Bond; 2016; Leave no one behind: how the development community is realising the pledge

vii World Bank; 2015; Research Brief – Governments don't have to go it alone.

viii International Covenant on Economic, Social and Cultural Rights, (art. 2 (1)); Convention on the Rights of the Child (art. 4); Convention on the Rights of Persons with Disabilities (art. 4 (2))

Even when strategies are designed to increase sector financing, such as tariff reforms, such strategies must aim for equity and sustainability – a balance between securing the additional financing to enable service extension and operations while enabling poorer populations to gain access to service.

The challenges in finding the adequate and appropriate mix of financing for the sector are compounded by the fact that many countries now have an increased number of options for financing their national plans, from domestic, international, public and private sources than they had hithertoⁱⁱⁱ. For example, once viewed as “opportunists” and “gap fillers,” the domestic private sector is increasingly viewed as a central part of the solution^{iv}. Official Development Assistance (ODA) has increased significantly but strains to emphasise grant financing, effective targeting, and closure of the gap between commitments and disbursements^{v vi}. ODA has historically overwhelmingly supported projects rather than programmes or system strengthening activities. However, in addition to market-related risks, firms face policy and institutional obstacles (bureaucratic hassles, insecurity of licenses and lack of effective dispute-resolution mechanisms). Enterprises working in the sector would like governments to concentrate on removing risks to entry by providing market intelligence and promoting the entry of enterprises that are able to undertake transformative research and development on new technologies and materials.

While governments no longer have to ‘go it alone’ when it comes to financing water, sanitation and hygiene, their role in terms of leadership, coordination and knowledge remains critical and undiminished^{vii}. According to human rights norms, to which almost every single to which almost every government is bound, States have an obligation to realise the rights to water and sanitation “individually and through international assistance and cooperation (...) to the maximum of its available resources”^{viii}. They can increase the overall funding available to the sector by strategically using their limited public funds to attract additional financing; moreover, innovative public financing structures can even attract commer-



cial finance into projects that target the poor and the marginalized, a historically underserved population segment. Governments can: leverage existing budgets into larger pools of financing by attracting commercial lenders to the water sector; create a supportive enabling environment and de-risk projects; lenders to commercial financing from small individual household loans from micro finance institutions to large infrastructure bonds issued in capital markets.

The four intervention areas to link good governance to better financing

According to the SWA Finance Ministers' [Handbook](#), finance ministers and, more broadly, financial actors, should strive adopt a mix of solutions covering four intervention areas:

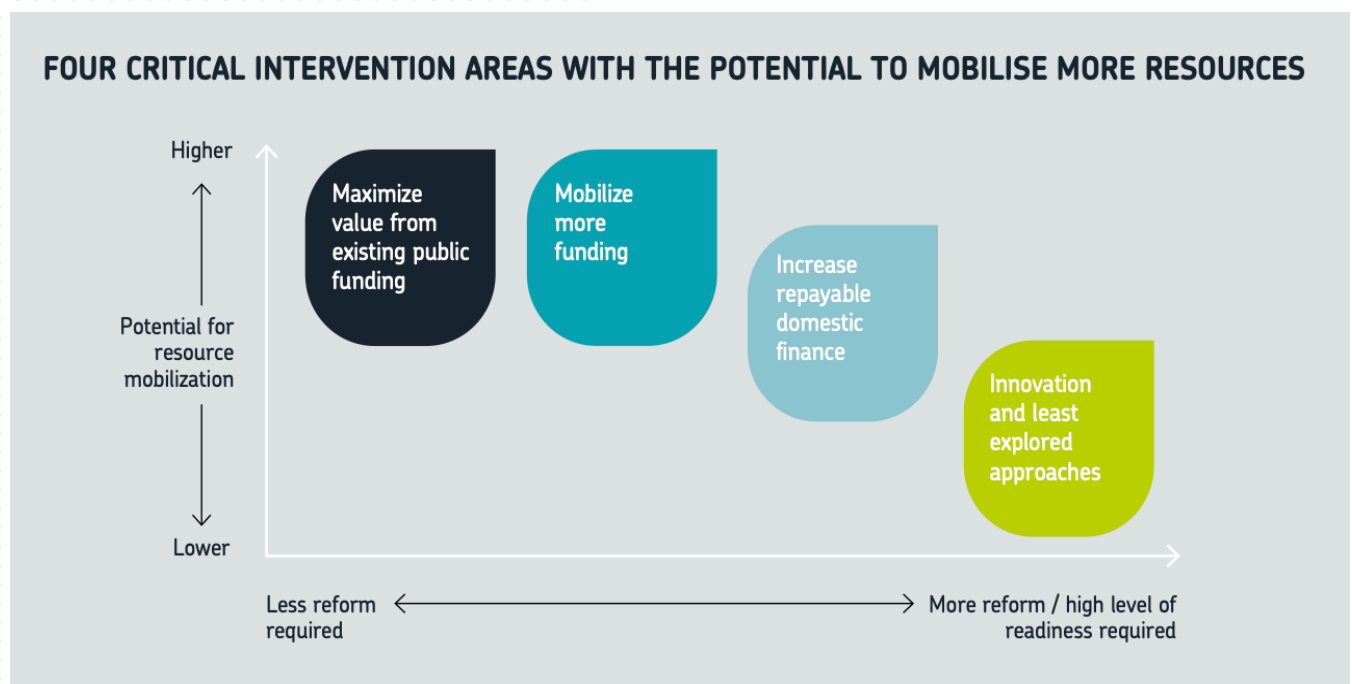
- **Maximize value from existing public funding** by incentivizing sector performance (examples include Indonesia and Peru), improving subsidy targeting (Chile, Colombia) and promoting better sector planning and management (Cambodia, Mozambique).
- **Mobilize more funding** by increasing government

resources (Mali), setting up adequate cost recovery policies by reforming tariff systems (Burkina Faso), introducing earmarked taxes (South Korea, India and Costa Rica) and establishing an array of options for cross-subsidization (Argentina).

- **Increase repayable domestic finance** through mechanisms that reduce perceived risks and pool finance at national, municipal and household levels (the Philippines), improve sector performance through assessment of providers' creditworthiness (Indonesia, Kenya), work with private sponsors (India, Rwanda), support microfinance and strengthen markets using municipal development funds (Czech Republic) and revolving funds (Bulgaria).

- **Encourage innovation and least-explored new approaches** such as climate funds (Kiribati) and social impact bonds (Cambodia), to tap sources of finance rarely accessed by the water and sanitation sector.

The figure presents the relative potential of each of these intervention types to raise resources for the sector, and trades off this potential against the underlying sector reform and system strengthening



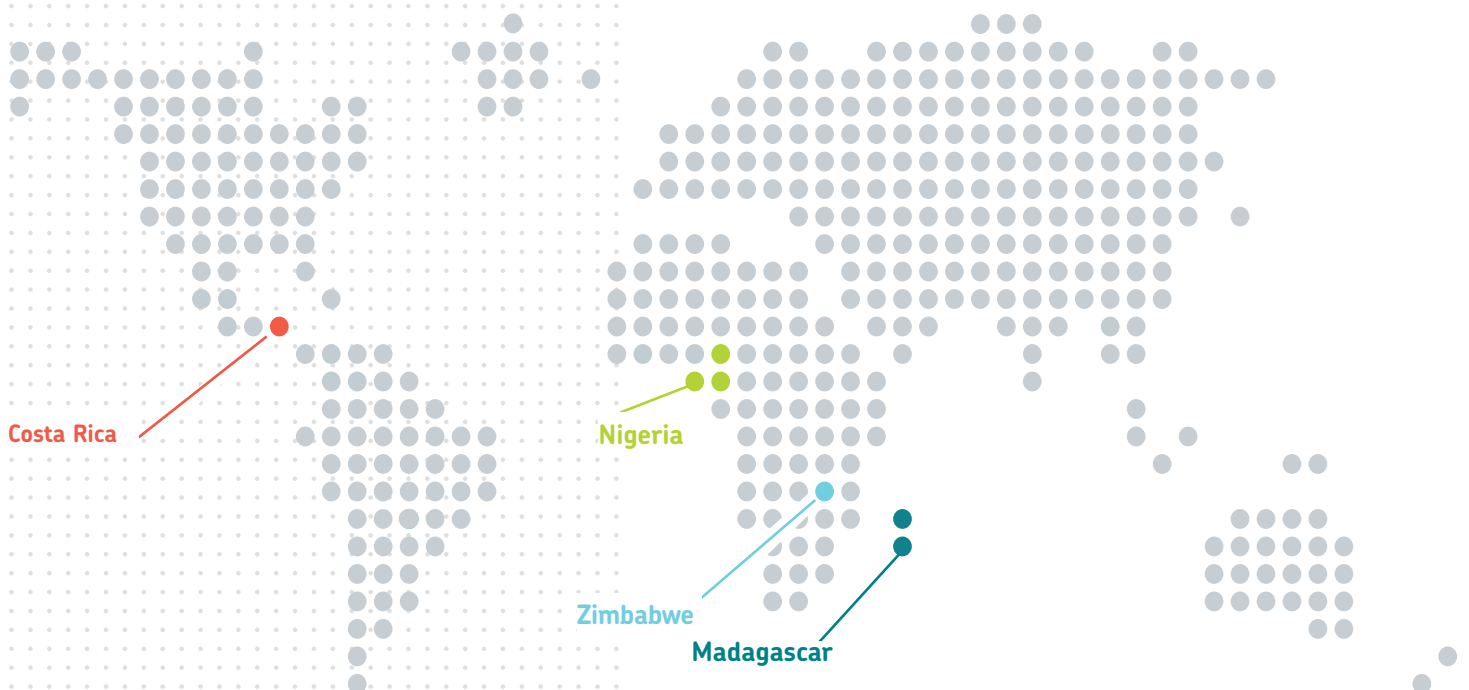


This Quarterly Note is a logical companion piece to the [Handbook](#) – it presents testimonials from countries which have worked to simultaneously increase the political prioritization given to water, sanitation and hygiene, while also strengthening the underlying system. The combination of these two factors has allowed the countries to make significant gains in sector financing. This is aligned with the continuing focus of SWA on sector financing. This focus is illustrated notably by the convening of dialogues between sector and finance ministries to identify the main bottlenecks (which would allow for highest gains for a given effort) and define specific actions to address these bottlenecks^{ix}.

The absolute need for the water, sanitation and hygiene sector to improve its performance and

attractiveness is brought into stark relief by the challenges the sector faces in accessing climate financing. While international climate finance has risen sharply, the water sector has captured only a modest proportion of that funding to date – despite the fact that 90% of the climate-change issues are related to water. The mutual integration between water, sanitation and hygiene on the one hand, and climate on the other, is a crucial factor here – and it has been observed that this integration is rendered challenging due to the perceived lack of organization, attractiveness and financial efficiency of the sector. SWA is currently [focusing](#) on improving the mutual integration between the two sectors, and using this integration to attract more climate-related resources to the water and sanitation sector.

Testimonials – Good governance & Systems change for better sector financing





Costa Rica^x

A **Water and Sanitation Roadmap was agreed upon** in Costa Rica, with the notable involvement of the Ministry of Health, Ministry of Environment, Ministry of Planning and Ministry of Finance – in 2017 the **associated Investment Plan 2017–2045** was approved. Thanks to political advocacy, **both instruments were signed by the President of the Republic**. Subsequently, in 2018, the Ministry of Finance approved a loan agreement with KfW for US\$92.8 million, for the execution of four wastewater works in four priority cities – this credit was ratified by the Legislative Assembly, in 2019. In the same year, the Ministry of Finance approved a loan for US\$ 70 million from the Central American Environment and Development Bank (CABEI) for three more sanitation projects in three other cities. Moreover, Costa Rica volunteered to host both Latinosan and **SWA Sector Ministers' Meeting (SMM)** in 2019, as a strategy to **achieve greater political interest and impact at both the national and regional levels**. Attended by the President of the Republic, these **activities managed to attract the media, which emphasized the importance of wastewater management and the need for more investment in infrastructure**. Thanks to this high-level support, the elected representatives more readily ratified the two credits. The Costa Rican Institute of Aqueducts and Sewerage (AyA) is in charge of the execution of the works under both these initiatives. The cumulative impact of these efforts is that sanitation coverage (with wastewater collection with treatment before discharge) increased by 9.8% compared to 2013. It is noteworthy that this national prioritization of and progress in water, sanitation and hygiene financing is commendable seeing that it came in a period of austerity and continues in the times of COVID.

Another **important factor that encouraged the increase in financing was the perceived credit-worthiness and credibility of the sector**. The country has designed and implemented a robust tariff calculation methodology which considers

the costs of operation and maintenance of systems, in addition to depreciation, development income to cover the debt for new investments and a separate tariff, called the environmental water tariff. The funds from the latter should be used to finance green infrastructure, such as the purchase of land for the conservation of sources used for human consumption, hydrogeological and hydrological studies, monitoring of surface water, groundwater, and environmental education activities. AyA makes tariff increase proposals based on the costs represented by the increase in supply coverage. This contributes to financial health, with tariffs at cost for the users. For families in socioeconomic strata of poverty and extreme poverty, a targeted cross-subsidy proposal was approved and is about to be implemented.

Madagascar^{xi}

Operation [Avotr'Aina](#), which started in June 2020, aimed to provide essential water and sanitation services to the most vulnerable urban populations in Madagascar. It was designed as an **emergency response to the COVID-19 crisis**. The preparatory phase consisted of extensive brainstorming between the government and technical partners, including epidemiological simulations of the spread of the disease and identification of the most vulnerable populations, confirmation of the critical importance of water in the COVID-19 response, and water consumption analyses of target populations in order to decide on the best-adapted solutions and to set appropriate subsidy rates. This **evidence-based planning ensured that the funding available for the Operation was used to achieve maximum health impact**. 600,000 of the most vulnerable people in the country's largest urban centres benefited initially from water subsidies, with hygiene facilities in health centres and public transport in these urban centres accompanied by awareness-raising on good practice.

The operation's main actors are the government, municipalities, UNICEF and bilateral cooperation partners. The mayors of the cities were also crucial actors in the Operation – and municipal by-laws



ensured that service providers implemented the agreed subsidies. This shows that the **financial effectiveness of water, sanitation and hygiene programmes can be ensured by choosing the right implementation mechanisms**. Avotr'Aina has reached its target population of 120,000 most vulnerable households in urban centres; and is now undergoing **an impact assessment that will strengthen accountability for the funding allocated and help prepare for a possible second phase** of the Operation.

Nigeria^{xii}

In 2018 the Nigerian President declared a state of emergency in water, sanitation and hygiene, leading to a launch of the 'Clean Nigeria: Use the Toilet' national campaign to jump-start the country's journey towards becoming Open Defecation Free (ODF) by 2025. Later in 2020 the Head of State and the Finance Minister readily supported the sector COVID Plan. Consequently, more than 90% of the funding requested for water, sanitation and hygiene interventions was approved and released. Moreover, water, sanitation and hygiene have been given a **higher priority in the annual budget** for 2021 and further improvement is likely in 2022.

The SWA Finance Ministers' Handbook has played a critical role in facilitating a cohesive relationship between the Federal Ministry of Water Resources and the Federal Ministry of Finance. The book has assisted both parties in looking into the approval of more funds allocated to the WASH sector for the fulfilment of SDG 6. The Sector Minister additionally confirmed the impacts of this handbook during his speech at a SWA webinar - He was particularly impressed that these emergency intervention funds were granted in the wake of COVID-19.

Nigeria has used SWA initiatives to **advocate more broadly and effectively to help increase financial priority given to water and sanitation**, namely - a 2019 meeting between the Nigerian Head of State, and SWA's high-level Chair, the endorsement of the SWA Global Leaders' Call to Action on COVID in May 2020; the launch of the Finance Ministers'

Handbook in September 2020; the SWA Finance Ministers' Meeting in December 2020; and a 2021 SWA event at the UN High-Level Political Forum. This high-level political engagement has led to direct results in financing for the water, sanitation and hygiene sector.

In parallel, **the contributions of the private sector to water, sanitation and hygiene are much better structured**. SWA's private sector partners in Nigeria have launched 'OPSWASH', a **national body that co-ordinates private sector efforts and cultivates multi-stakeholder innovations**. It has a specific focus on how the private sector can support the Government's objective to end open defecation by 2025. In November 2020, OPSWASH launched the 'FLUSHIT' campaign, involving the provision of two million toilets each year until 2025, supported by innovative financing, including a tax credit scheme for companies and organizations investing in the sector, government-issued 'Blue Bonds' to mobilize private capital for the sector, and public-private partnerships for the implementation of decentralized sewage treatment systems.

Nigeria has thus taken a multi-pronged approach to improving sector financing, by strengthening several collaborative behaviours simultaneously.

Zimbabwe^{xiii}

The 2020 Finance Ministers' Meeting is remembered for its success in bringing together the Finance and sector Ministers. This culminated in a joint commemoration of the "WASH Finance Week" and the Global Hand Washing Day where the Minister of Finance presented to the sector Ministers the SWA Finance Ministers' Handbook. He underlined the importance of innovative sector financing including prioritization of water, sanitation and hygiene for funding under the national fiscus especially now as the whole world battles COVID-19. The Finance Minister highlighted that



“WASH is the engine propelling the infection, prevention and control pillar of COVID-19 response plan the world over, hence the need by government to make sure that it is given high priority in national budgets”. True to his words, the **Minister of Finance hiked the 2021/22 sector budget by 66%, thus giving direction and setting the pace for strategic intervention by the private sector, utilities and development partners.** The increase of the budget for water, sanitation and hygiene is the direct impact of the successful SWA FMM in 2020, which helped high-level decision-makers understand how government investment in water, sanitation and hygiene could help deliver the government’s agenda of attaining an upper-middle-income economy status by 2030.

Zimbabwe’s experience shows that **strong political leadership is a pre-requisite for a strong enabling environment; this enabling environment, in turn, touches on security of investments over extended periods and across changes in political leadership, while providing the consistency necessary for stable and even growing community participation uninterrupted by mixed political messaging.** Building on the political leadership, the lead ministry engaged the President to consider endorsing the operationalization of a key clause in the 2013 National Water Policy calling for the urgent **establishment of a Water and Waste Water Regulatory Authority to strengthen mutual accountability in the sector.** In that regard, the President recommended for the creation of such an authority under a strengthened Department of National WASH Coordination; rapid progress has been made with the unbundling of the Zimbabwe National Water Authority (ZINWA) including review and updating of the Water Act and the ZINWA Act. Political engagement at SWA helped convince the Minister of Finance of the need to facilitate development and establishment of a financial

tracking system for the sector with an objective to support the sector to better understand its financial situation for more effective financial planning, programming and use of funds to improve service delivery including strengthening national and subnational systems for the collection, analysis and reporting of financial information. The World Health Organization’s GLAAS team has since been engaged to assist with both financial and technical support to the establishment of this system whose works are being handled through an in-country Systems Finance Working Group.

ix This is done via the SWA System and Finance Work Group ([SFWG](#))

x Source – Testimonial by Former Executive President, Instituto Costarricense de Acueductos y Alcantarillados (AyA)

xi Source – Testimonial by the WASH Chief, UNICEF Country office for Madagascar

xii Source – [SWA event at 2021 HLPF](#)

xiii Source – [Country story](#)