

SWA Webinar

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

5-6 February 2020

#2020FMM



**FINANCE
MINISTERS'
MEETING**

Washington, D.C. — April 2020

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A Strategic Objective on Financing in SWA's New Strategic Framework 2020-2030

Strategic objective 3: Rally stakeholders to strengthen system performance and attract new investments

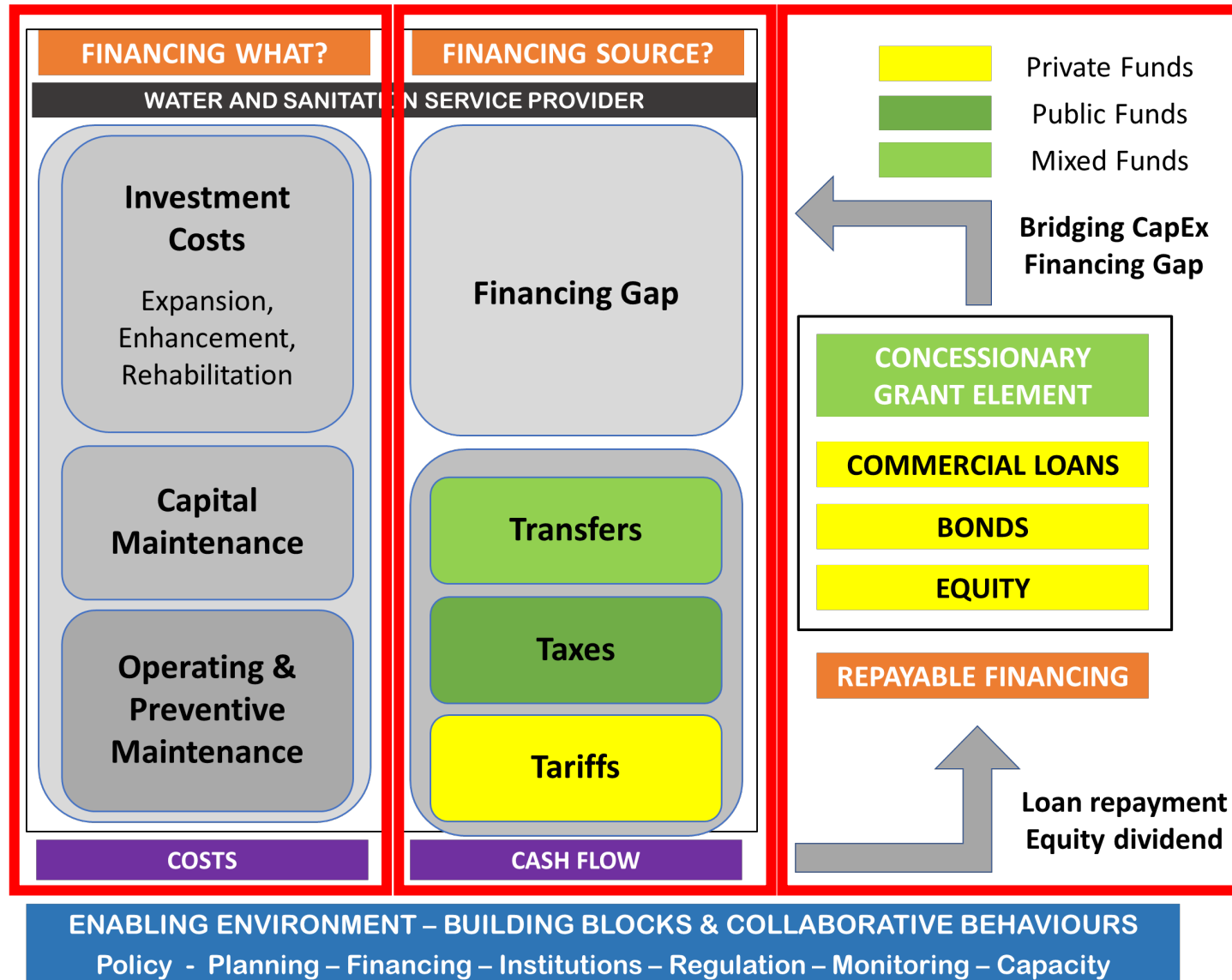
- By developing an efficient, credit-worthy sector
- By advocating for increased investment
- By supporting the development of national and sub-sector financing strategies
- By identifying new sources of finance and making existing sources more efficient
- By expanding SWA and sector capacity

Strategic objective 1: Build and sustain the political will to eliminate inequalities in water, sanitation and hygiene

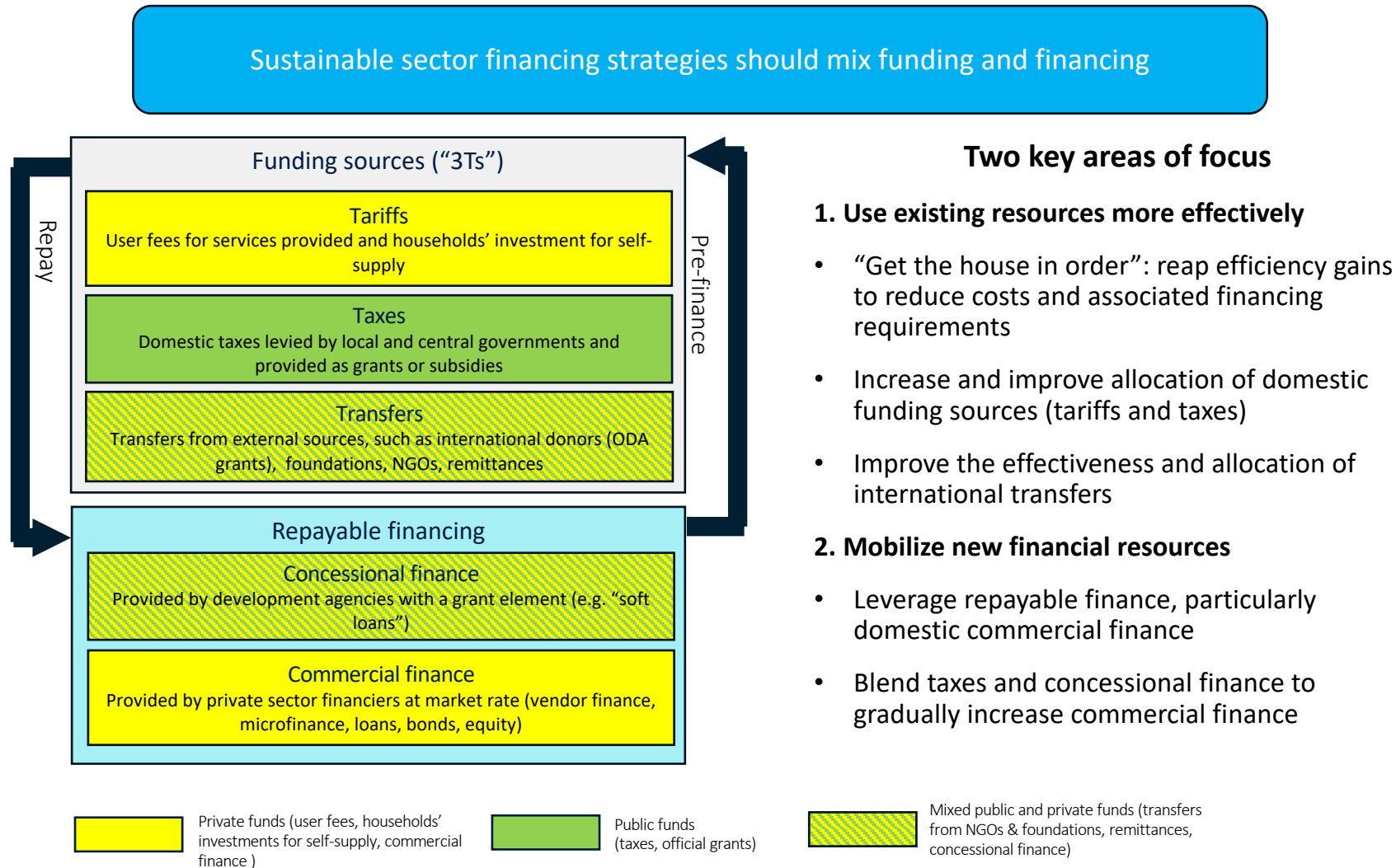
Strategic objective 2: Champion multi-stakeholder approaches towards achieving universal access to services



Understanding the financing picture



How can the sector be sustainably financed?



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

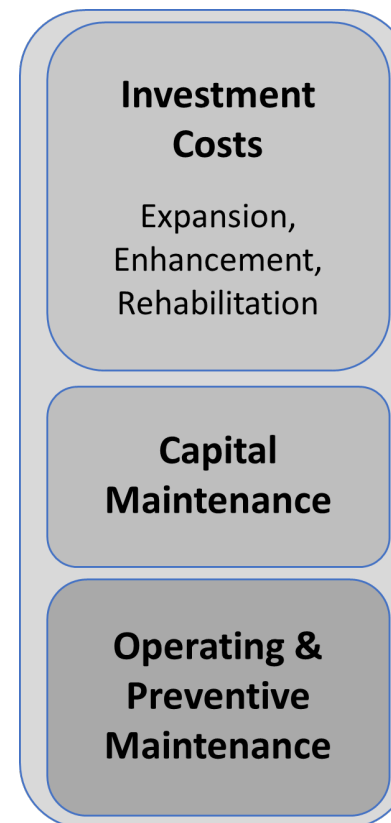
- What are future investment needs and timing to meet SDGs?
- What is historic investment in the sector?
- What is absorptive capacity in the sector?

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



SWA SDG WASH Costing Tool

Already applied in >40 countries, and used in preparations for previous SWA Finance Ministers Meetings

SERVICE	RURAL / URBAN	TECHNOLOGY	HOUSEHOLDS WITH TECH. OPTION	SERVICE COVERAGE LEVEL 2015	COVERAGE TARGET 2030	FINANCIAL COST PER CAPITA (US\$ in 2016) with DISTRIBUTION OF COST RECOVERY											
						CAPITAL COSTS (TOTAL)						MAINTENANCE COSTS (TOTAL)				OPERATING COSTS (ANNUAL)	
						COSTS			COST RECOVERY (%)		COSTS		COST RECOVERY (%)		COSTS	COST RECOVERY (%)	
						CapEx	Software	Duration	Customer	Subsidy	CapManEx	Duration	Customer	Subsidy	OpEx	Customer	Subsidy
Basic Water	Urban	Tubewell	50%	69%	100%	62.5	3.1	-20	20%	80%	18.8	-10	20%	80%	2.3	80%	20%
		Dug well	50%			29.8	1.5	-10			8.9	-5			1.4		
	Rural	Tubewell	50%	49%	100%	42.8	2.1	-20	20%	80%	12.8	-10	20%	80%	2.3	80%	20%
		Dug well	50%			8.1	0.4	-10			2.4	-5			0.4		

User can change the following variables

- ✓ Technology choice
- ✓ Current coverage
- ✓ Target in 2030
- ✓ Duration of hardware
- ✓ Capital costs per service
- ✓ Recurrent costs per service
- ✓ Cost recovery
- ✓ Current financing
- ✓ Discount rate for future values

Go to SWA Tools Portal for latest version



Created by World Bank and UNICEF

UN-Water TrackFin Tool



Already adopted by >15 countries

Data collected to answer:

- ✓ What is the total expenditure in the sector?
- ✓ How are funds distributed by services and expenditure types?
- ✓ Who pays for services?
- ✓ What are the main funding channels?

Created by WHO

Go to SWA Tools
Portal for latest
version



Closing the Gap:

Getting more from tariffs, taxes and transfers

Tariffs

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

e.g. In Radeema (Marakesh, Morocco) three services were grouped (water, sanitation and electricity) and the latter ended up financing the deficits in sanitation and water

Thinking about tariff structure

Yellow revenue (current): 1.5X

Red revenue (revised): 2.5X

Equal blocks

Volumetric

Tariff

4X

3X

2X

X

6

12

18

24 m3/month

40

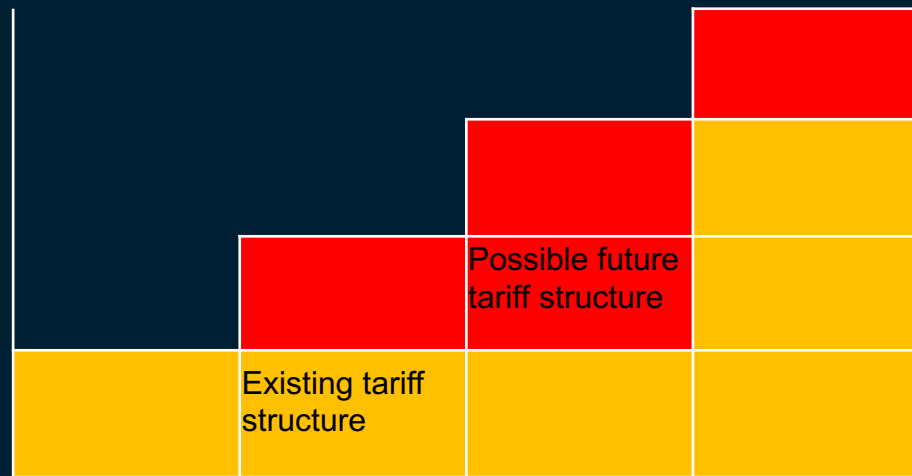
80

120

160 lpcd

Existing tariff
structure

Possible future
tariff structure



Getting more from tariffs, taxes, and transfers

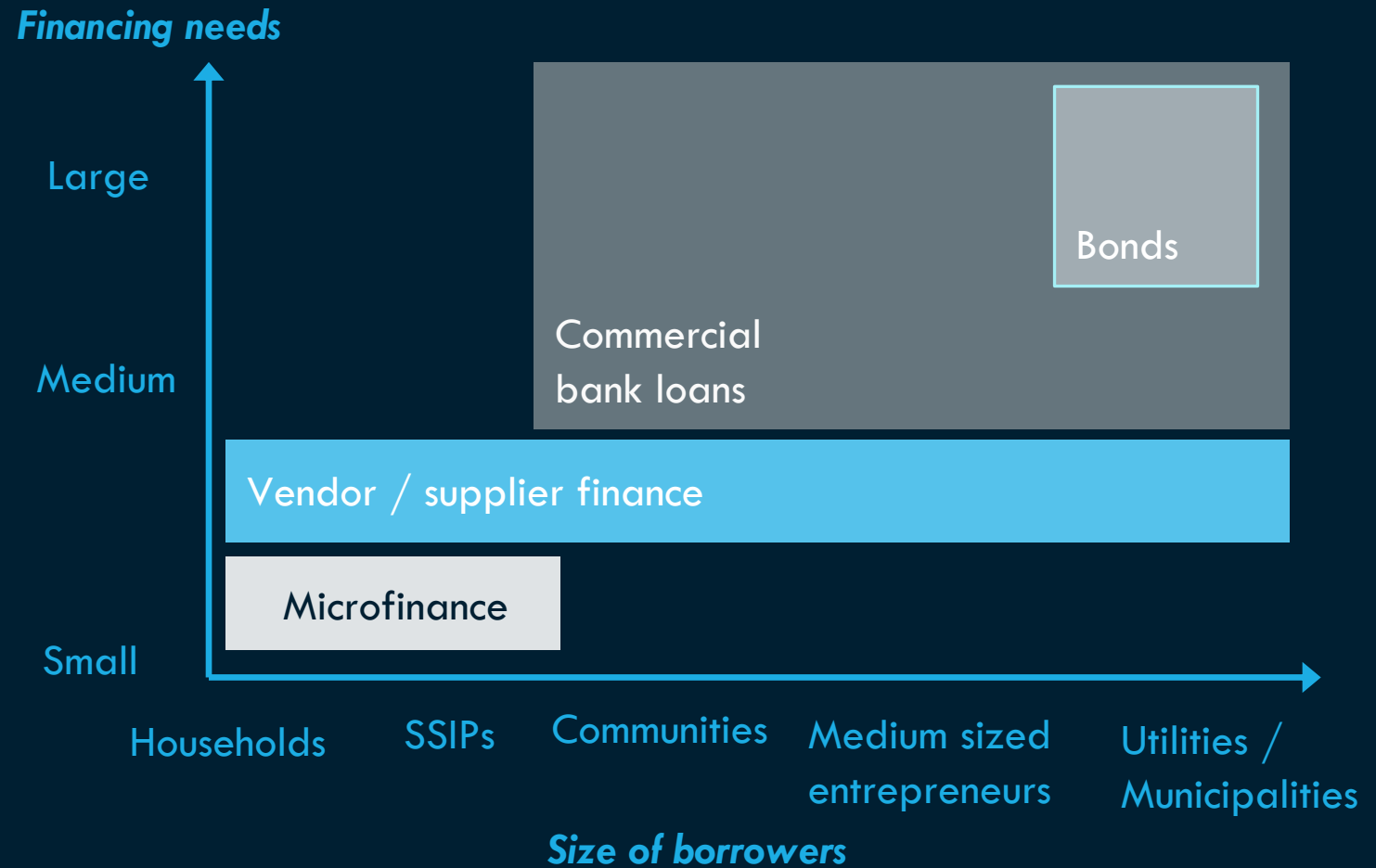
Taxes

- 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% of public expenditure in 2017 to 2.62% in 2018)
- Alternative taxes/fees
Universal access fees in USA (telecommunications), Argentina (Universal Service and Environmental Improvement fee – SUMA)

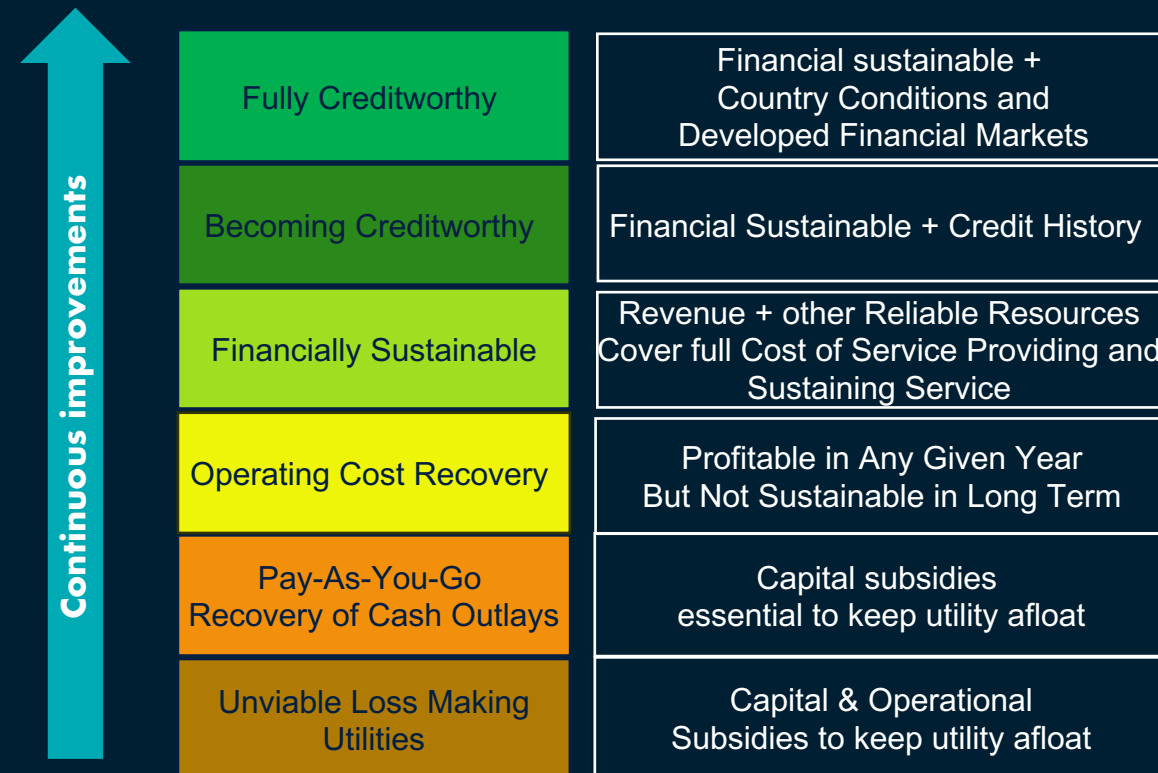
Getting More from Tariffs, Taxes and Transfers - Green Climate Fund (GCF)

- 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 Water supply and sanitation projects only captured \$328 million financing for 8 WSS projects – just under 6% of the total.
- GCF funded water supply and sanitation 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

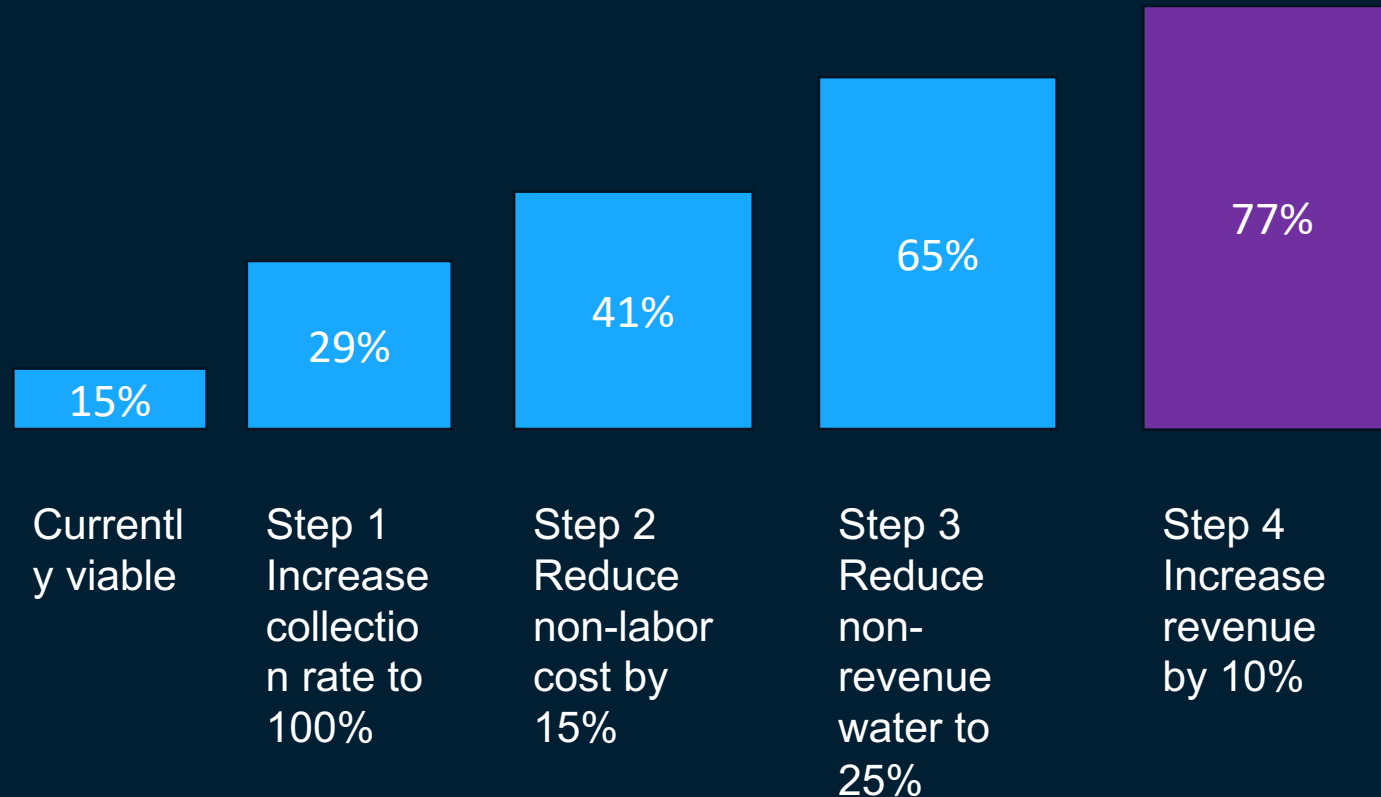


How service and efficiency improvements can help access market finance



Steps to creditworthiness through improving operational efficiency – and thus access to market finance

Operating Cost Coverage Ratio >120% of O&M



Analysis based on IBNET data, World Bank

Increasing access to, and amount of, repayable finance

Results based financing:

- Water OBA in Kenya for small-scale piped schemes: \$2.8m of output based grants mobilized \$4.6m of private finance

Partnering with the private sector in urban services (repayable finance through long term PPP agreements)

- Hybrid annuity model for WWTP in India Ganga project: 40% grant and 60% private sector – scaled up to attract \$400m in Ganga basin across 24 contracts

Provision of guarantees/transparency to encourage market entry and improve borrowing terms

- Credit ratings for utilities (e.g. Kenya and Philippines) - enterprise and financial risk profile
- Philippines water revolving fund – lower interest rates and longer maturities
- K-rep bank Kenya – six providers mobilized \$3.2m commercial financing with 50% partial credit guarantee
- 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)

WaterCredit Investment Fund – blend of philanthropic, social and concessional funds using mix of equity, debt and first loss guarantees targeted at poor families. Total of \$111 million raised.

- New models of service delivery (repayable finance through service fees):

Container based sanitation where financing recovered from user fees

Credit Enhancements – To de-risk investments and improve underlying credit (Urban opportunities)

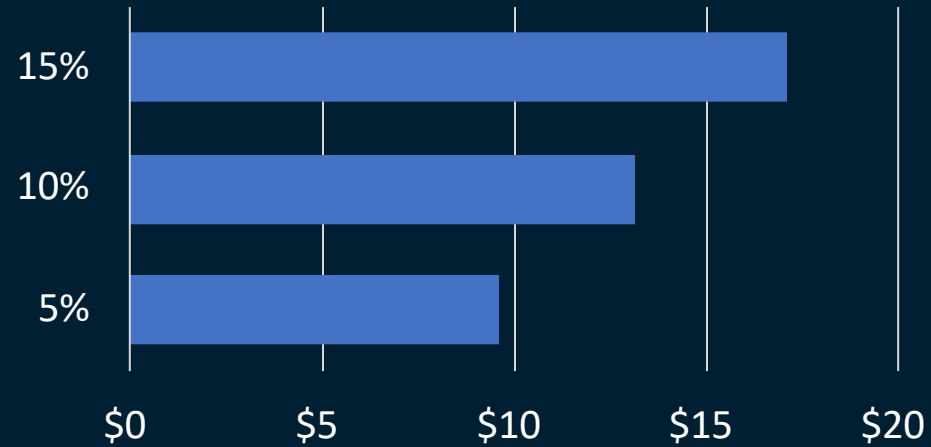
Lender provided with reassurance that the borrower will honor its repayment through an additional collateral, insurance or third party guarantee

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

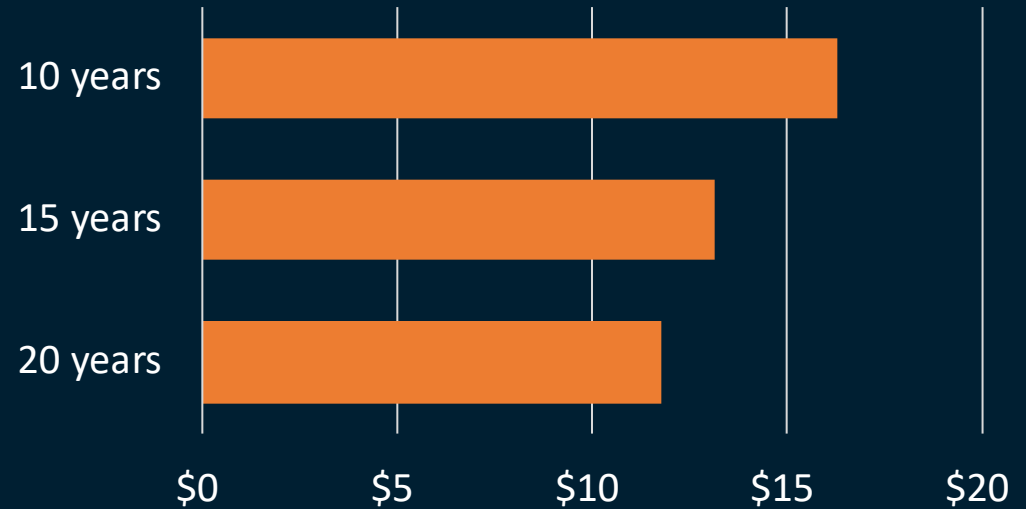
- A. Escrow Accounts – DSRA, Liquidity Accounts, etc
- B. Government Revenue Intercepts
- C. Asset or Cash Flow collateral
- D. Partial Credit and Risk Guarantees

Improving affordability through blending (incl. using credit enhancements)

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



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



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 consistently shown to be greater than costs

⇒ 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

In Summary

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!

Q&A

2



Cambodia- National Action Plan for rural WASH 2019- 2023: Toward WASH CSDG

Chreay Pom

Director General of Technical Affairs
Ministry of Rural Development



Background

- Cambodia has recently developed and launched a costed National Action Plan for Rural Water Supply, Sanitation and Hygiene 2019-2023: a stepping stone for Cambodia SDG achievement
- The results framework of the plan was also structured to align with national program budgeting result levels
- Analysis was also conducted to identify sources of financing
- By quantifying financing gaps, the costed plan highlights resource mobilization.

The RWSSH Financing Requirements

- Reaching the access targets set for NAP 2019–2023 will involve an estimated
 - 4.1 million people living in rural areas gaining access to basic water supply services,
 - 2.5 million people to basic sanitation services.
- This requires investment of an estimated US\$ 898.4 million over five years, including the total capital investment requirements of
 - US\$ 12.3 million related to the enabling environment (Output I);
 - US\$ 597.3 million related to basic water supply, including in institutions (Output II);
 - US\$ 288.5 million related to basic sanitation, including in institutions (Output III);
 - US\$ 200,000 related to behaviour change (Output IV).

The RWSSH Financing Requirements (cont.)

- This estimation has not yet factored in personnel and other related overhead costs.
- Out of the total requirement, it is anticipated that the household contribution will be US\$ 150.6 million (US\$ 33.1 million for rural water supply and US\$ 117.5 million for rural sanitation).
- Modelling of capital expenditure requirements for the WASH sector to reach 2025 targets indicate an annual shortfall of US\$ 142.2 million (67% of annual requirements), and additional annual operation and maintenance cost requirements of US\$ 24.2 million.

Challenges

- Inadequate capital and operational funding
- Public domestic expenditure levels for RWSSH are low, compared to public external expenditure: 2% of annual capital requirements, compared to 16% of requirements respectively
- Public domestic expenditure levels as a proportion of sub-sector requirements are lowest for the rural sanitation sub-sector at 1.2% of requirements.

Efforts made to date

- The government has increased the budget allocation for the sector
- Developed National Action Plans and Provincial Action Plans for RWSSH
- Stronger alignment of development partners
- Advocacy activities to promote funding commitments of all potential funders
- Adopted program-based budgeting
- Strengthened program budget implementation

Efforts made to date (cont.)

- Focused sector attention to inequality issues by targeting the poor households as well as those situated in challenging environments by formulation of the Guiding Principles;
- Strengthened sector links between WASH and Nutrition actors and programming
- Strengthened collaboration with the Ministry of Education for WASH in Schools and Ministry of Health for WASH in Health Care Facilities
- Increased responsiveness of RWSSH service delivery, improved efficiencies and enhanced accountabilities
- Developed the RWSSH Monitoring system.

Further efforts to be made

- Develop a sector roadmap towards 2025
- Develop a sector financing strategy and a system to monitor and review this at regular intervals
- Gradually transform from input based budget system to output based budget system (Output and Outcome) accompanied with appropriate De-concentration and Decentralization
- Strengthen the private sector role in service delivery
- Strengthen capacities to mobilize resources

Further efforts to be made (cont.)

- Institutional strengthening and capacity development, special attention to the sub national level
- Strengthen collaboration with concerned ministries in formulating strategies and policies and identifying priorities for investment both public and private in order to gain the efficiency and maximizing the use of both internal and external potentials resources
- Collaborate with the Ministry of Economy and Finance for greater allocation of annual budget for public investment
- Monitor the implementation of NAP/PAPs 2019-2023, and propose measures to address challenged as needed.

Q&A

4



Reviewing and reporting on your commitments

The SWA Mutual Accountability Mechanism



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Washington, D.C. — April 2020

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 follows the national timeline

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 form

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

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.

Commitment *

69 - LS Lesotho Lesotho (le) - - Actions on issues of reducing the open defecation

...

Has the commitment been achieved? *


- ☒ Yes, fully (100%)
- ☐ Almost fully achieved (75%-99%)
- ☐ Some progress (50% – 74%)
- ☐ Limited progress (25-49%)
- ☐ No progress

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

 Drop files here

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

- ☐ [Civil Society](#)
- ☐ [Private Sector](#)
- ☐ [Research and Learning Institutions](#)
- ☐ [External Support Agency](#)

When do you next expect to report on this commitment?

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!



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