

#2020FMM

SWA Webinar

Incentive Based Financing to end inequalities and
Climate Financing for sanitation and water

3-5 March 2020



Co-convened by



WORLD BANK GROUP
Water



FINANCE
MINISTERS'
MEETING

Washington D.C. – 17 April 2020

Agenda

- Incentive based financing to end inequalities
- Question & Answer
- Climate financing for sanitation and water
- Green Climate Fund
- Question & Answer

Incentive Based Financing- An overview

**Presented by Lesley Pories, Sector Strategy
Manager, water.org**

And

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Specialist, World Bank Water Global Practice – East
Asia and Pacific**

Prepared by Bill Kingdom, SWA Senior Adviser



What is Incentive (Results) Based Financing?

- **Results-based financing (RBF):** A mechanism that rewards the delivery of **outputs or outcomes** with an incentive, upon **verification** that the agreed result has been delivered. Often requires **pre-financing** of activities before payments are made.

As opposed to:

- **Input Based Financing:** Provides financing to deliver an asset – which may or may not deliver results. Traditional method of sector financing.

Results Based Financing can be used at different levels and degrees of risk transfer.

Different levels of RBF:

- Sector level – by IFIs to incentivize governments towards sector reform/sector performance improvements
- Sector level – by Governments to incentivize utility performance
- Project level – by utilities to incentivize delivery of project results

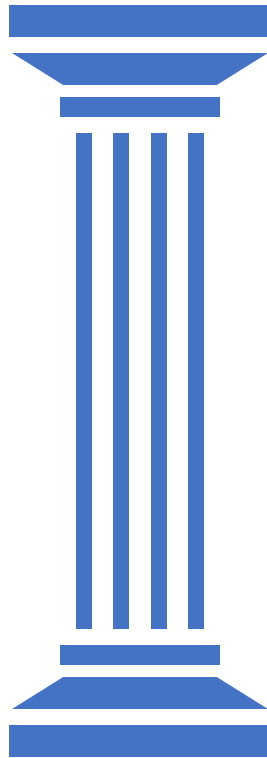
Different degrees of RBF risk transfer:

- Minor – performance bonus for delivering particular results
- Major – substantive capital or operating costs at risk in event of non-performance

Two Pillars of World Bank Program for Results Instrument (PfR): Programs and DLIs

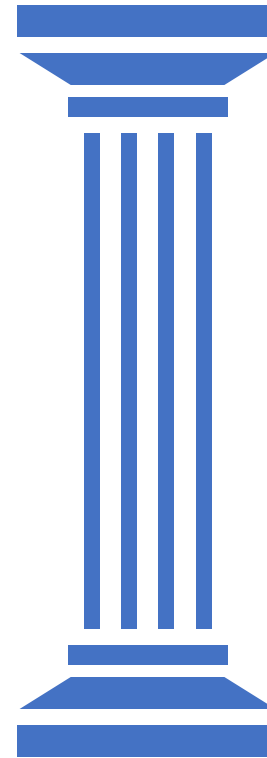
Program Definition/Program of Expenditures

- PforR has supported a range of government programs
- The majority have supported sub Programs, either sectorally or geographically
- Program boundaries also define the scope of the assessments to be carried out



Disbursement Linked Indicators (DLIs)

- PforR has supported a range of DLIs depending on the Program
- DLIs include **service delivery indicators, outputs and/or outcomes**
- DLIs also include **institutional indicators** including on fiduciary and environmental and social issues
- Each DLI has a specified **verification** protocol before disbursement



Key to Incentives - Disbursement Linked Indicators (DLIs)

PforR operations disburse funds based on “Disbursement-linked Indicators (DLIs)”

- Depending on the Program, DLIs can be:



- DLIs should be:



- DLIs can be scalable, meaning disbursement is proportional to progress in achieving the DLI. This helps provide a more stable basis for disbursements than threshold-type conditions.

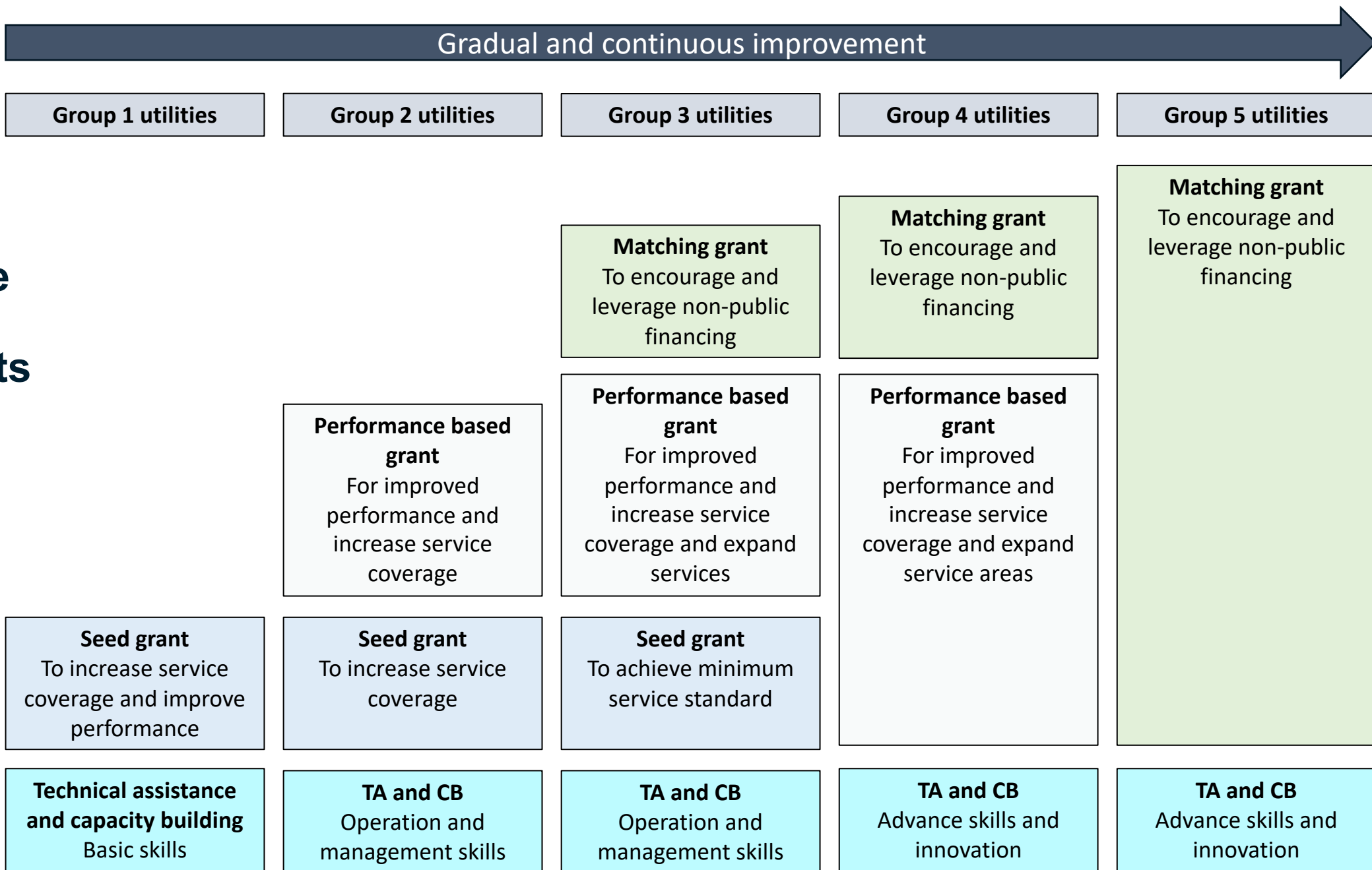
DLIs (or any RBF model): Verification Mechanisms

- Credible verifications arrangements to be put in place
- Verification is typically handled by government independent entities (usually in charge of conducting audits) or by private firms contracted by the government
- Each DLI should have a specified verification protocol agreed upon during preparation and appraisal

Example DLIs from an RWSS Project

- DLI 1: Number of people with **access** to an improved water supply
- DLI 2: Number of **sustainably functioning** water points
- DLI 3: Number of people with **access** to an improved sanitation facility
- DLI 5: Number of villages that **achieve and sustain** community wide sanitation status
- DLI 7: Number of entities **submitting accurate and complete** sector M&E data
- DLI 8: Rural support agency **established** and operationalized

National scheme to incentivize performance improvements and mobilization of market finance

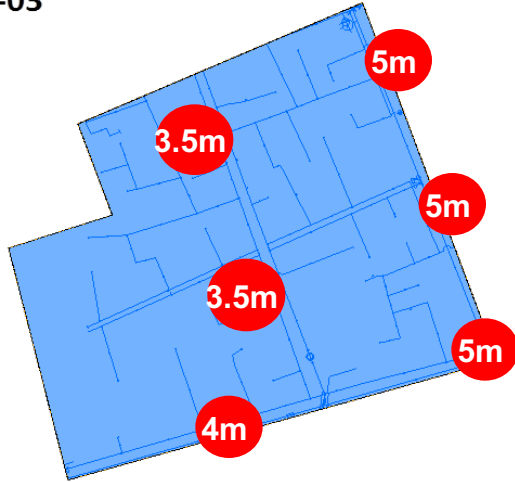


Project level RBF for improved efficiency through reduced NRW – HCMC, Vietnam

- Type of contract - Output-based: design, build, operate contract with strong performance element
- Payment:
 - Small fixed fee
 - 'Priced Activity Schedule' for DMA establishment (lump sum price per DMA established)
 - Performance fee per m³ leakage reduction
 - BoQ (supply and installation) for unforeseen works and works to connect new customers
- Contract duration - 4 years + 1 year maintenance period
- Performance Indicator:
 - m³/day with a minimum level to avoid penalties
 - But with a special provision for adjustments driven by changes in pressure
- Monitoring: HCMC Water Supply Company supported by special consultants (regular construction supervision and periodical independent auditor)

Benefits of leakage reduction

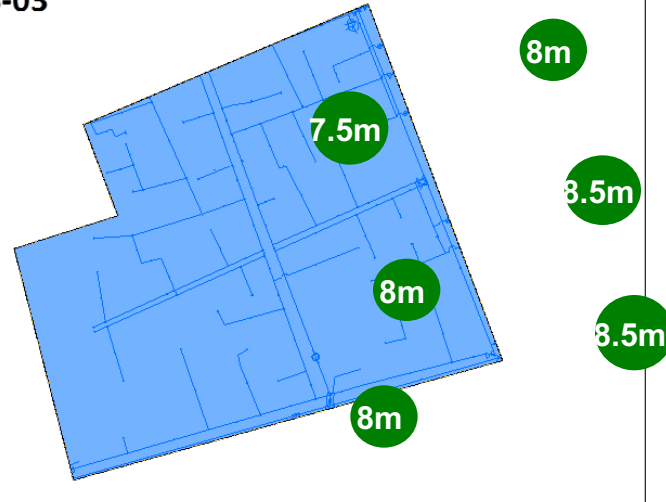
DMA 5B-03



Pressure Before

BEFORE (September 2010)	
Supply (m ³ /day)	3,487
Consumption (m ³ /day)	1,461
Average Pressure (m)	4
NRW Volume (m ³ /day)	2,026
NRW %	58%

DMA 5B-03



Pressure After

AFTER (October 2011)	
Supply (m ³ /day)	1,891
Consumption (m ³ /day)	1,583
Average Pressure (m)	8
NRW Volume (m ³ /day)	308
NRW %	16%

NRW Reduction

1,718 m³/day

Summary results – HCMC, Vietnam

- What:
 - Service population of ~1 million people
 - Number of connections 140,811
 - Length of distribution system 662,063 m
- Result:
 - Volume of water saved = 92,000 m³/d (final amount ~100,000 m³/d)
 - Almost half the pre-project amount of leakage
 - Saved water could serve 500,000 people in HCMC
 - Saved power (23,000 kwh/d) could serve 2,500 HH in HCMC
- How:
 - Number of DMAs created: 114
 - < 1% of distribution system replaced
 - 8,535 connections replaced = 6%
 - 12,000 leaks fixed in 662 km of pipe = one every 50 m
 - Performance based payment: fixed + variable per m³/d saved

Output Based Aid to Incentivize Commercial Financing of Water and Sanitation in Kenya

The Challenge

- WSPs face growing populations, increased investment needs, and lack access to finance for water and sanitation
- Investments in infrastructure exclude low-income areas (e.g., informal settlements)
- Market intelligence and perceived risk of lending/borrowing for water and sanitation

The Solution

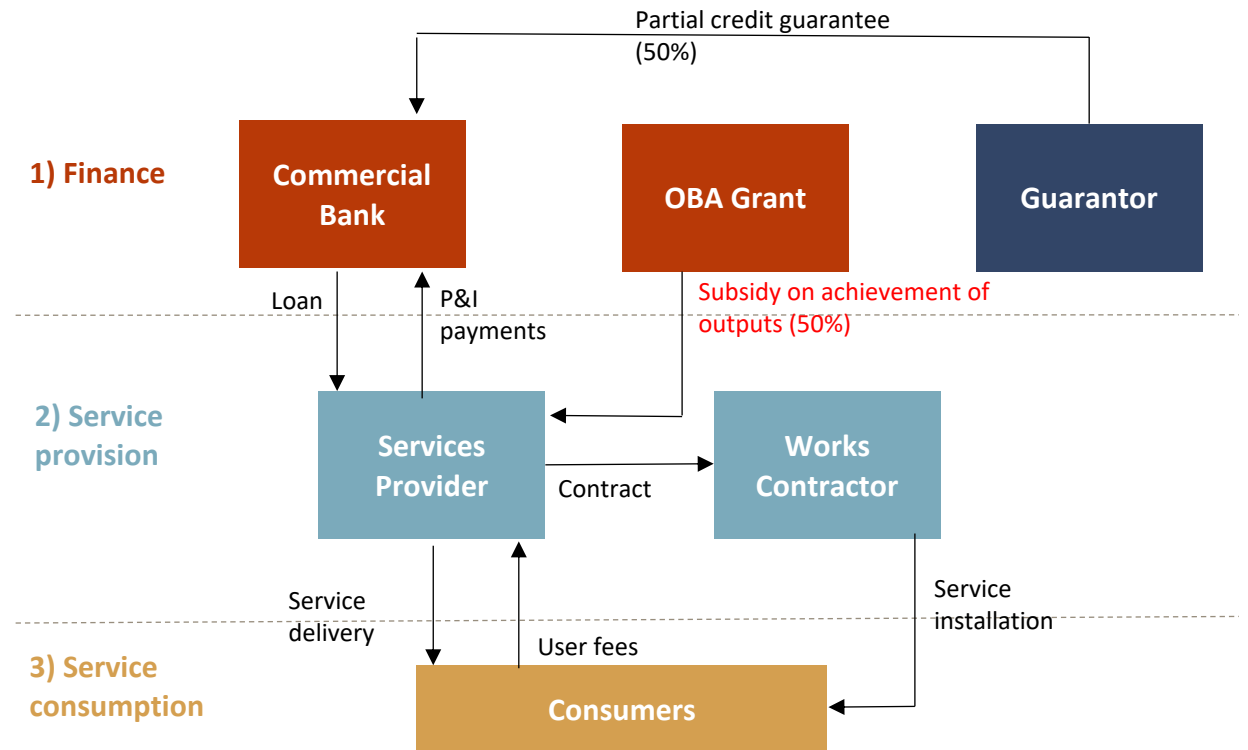
- Sector reforms created an environment conducive to commercial lending to help fill investment gaps (e.g. Kenya Water Act 2002 /16; autonomous WSPs; independent sector regulator; ring fencing revenues)
- OBA incentive to target low-income populations
- WSP creditworthiness assessments
- Technical assistance to assess financial viability and technical feasibility of projects/ improve bankability of WSPs
- USAID partial credit guarantee to mitigate lender credit risk

OBA for Commercial Financing of Water and Sanitation in Kenya

Outcome

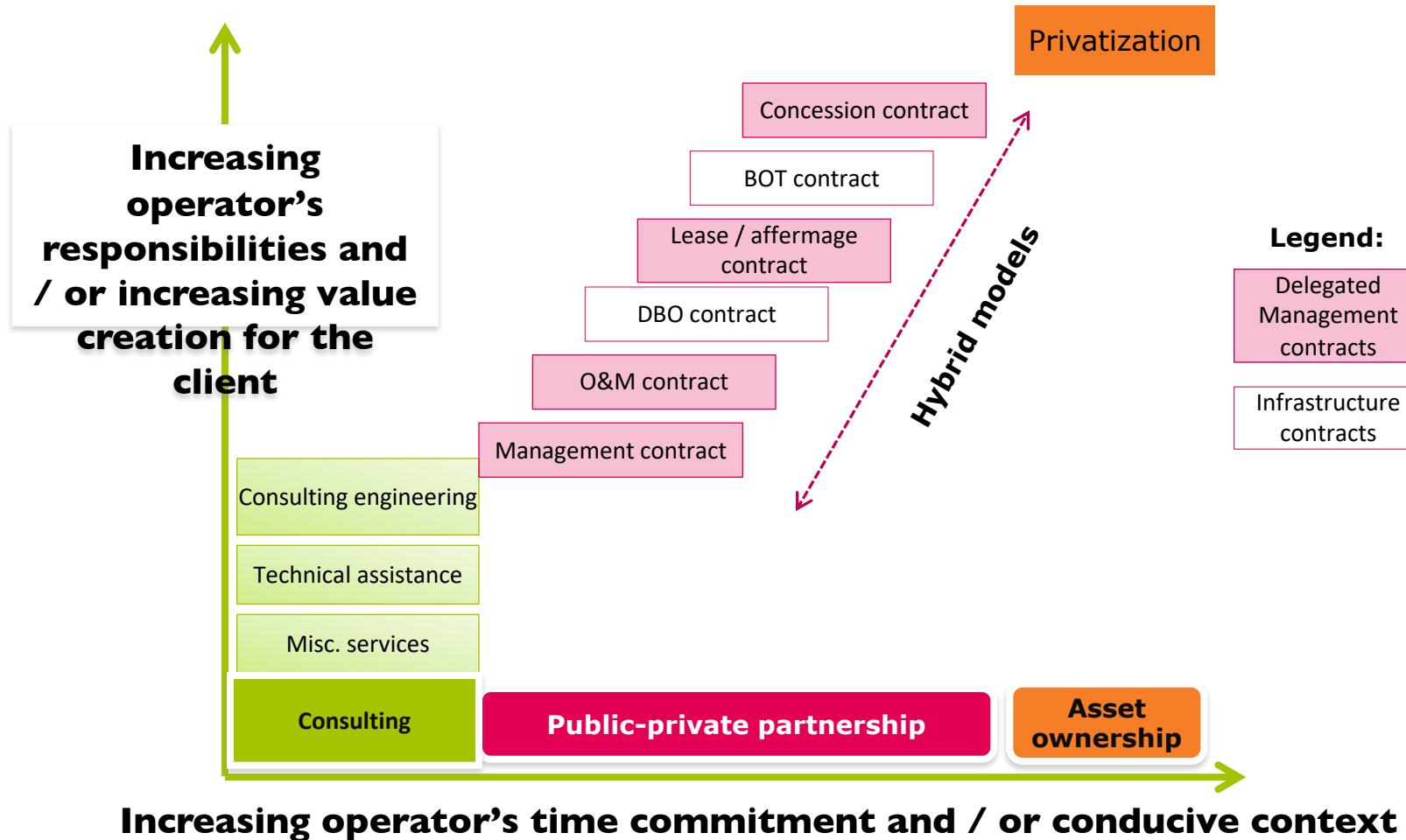
- Pilot: 35 communities borrowed **\$3.4 million** from K-Rep bank benefitting 200,000 people
- Ongoing projects: 9 utilities have accessed **\$20 million** in commercial loans from 4 domestic lenders on market terms, benefitting an expected 300,000 people
- Going forward: Establishment of a pooled water facility (KPWF) to mobilize local private capital to finance water and sanitation infrastructure
- **WSP had to pre-finance the investment and only received OBA grant on delivery of results**

Project Structure (Kenya OBA Fund)



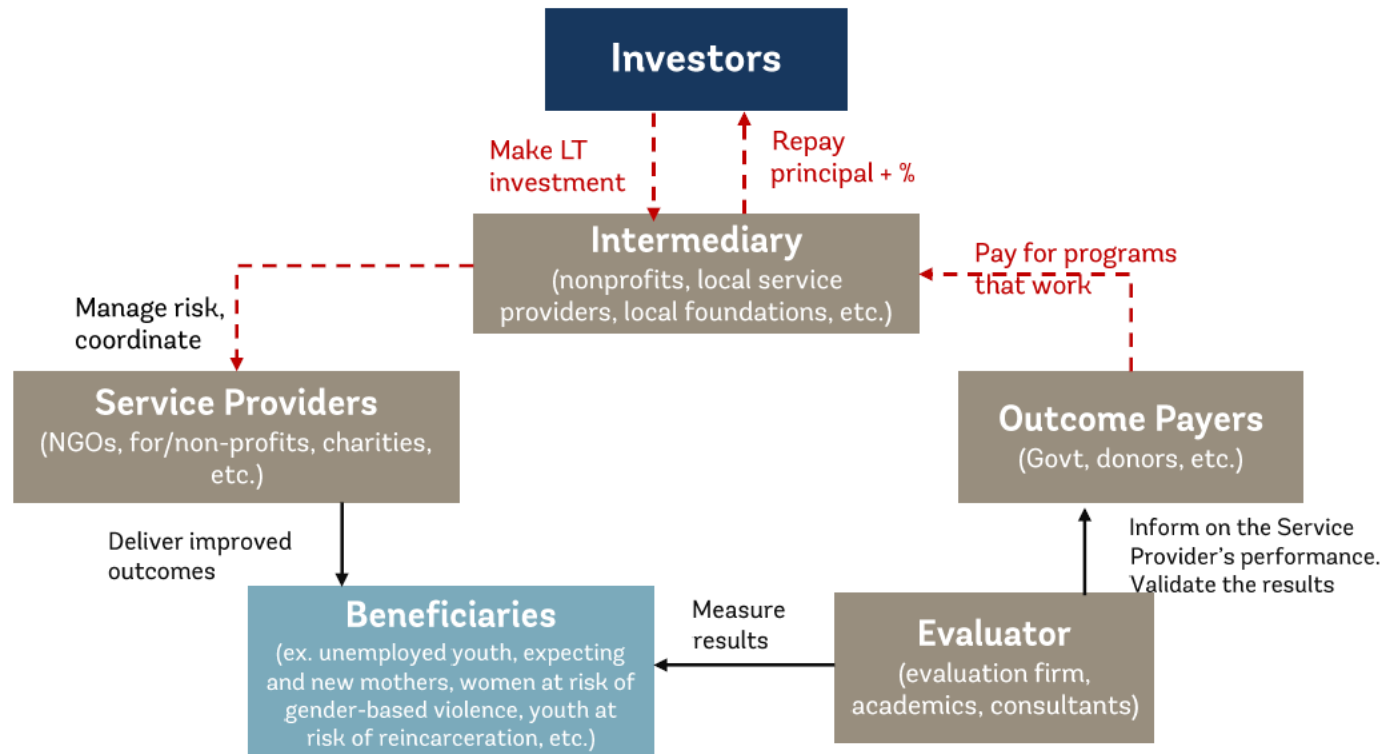
OBA subsidy combined with partial credit guarantee supports domestic lending to water service providers

Results based financing can be applied to a wide range of PPPs



Source: Suez (2014)

Impact Bonds: Financial Structure



Every impact bond is different, but all include the investor, service providers, outcome funder, and evaluator.

In Summary

- Results Based Financing is a broad-based approach where part of a payment (to government, utility, contractor) is linked to delivery of verifiable results
- Results based, performance based, incentive basedmany terminologies
- RBF can be applied at the sector level and at the project level
- The degree of risk transfer can be wide ranging – from a “bonus” through to material risks linked to capex and opex payments
- Changes stakeholder mindset from “what shall we build?” to “what do we want to achieve from this investment?”
- RBF approaches will typically result in faster, more efficient, more effective and more sustainable solutions

Question and Answer



Climate financing for sanitation and water – An overview

Presented by Marissa Streyle, SWA Secretariat

Prepared and adapted by Jose Gesti Canuto, SWA Adviser

Original slides created by Louise Whiting, WaterAid

Climate finance and WSS

- Climate change impacts the **sustainability** of water supply and sanitation services
- Climate finance presents an **unexploited opportunity** to renew focus on resilient development
- Changes are needed to ensure adaptation finance is of **sufficient volume, targeted at the poorest** and **spent effectively**.

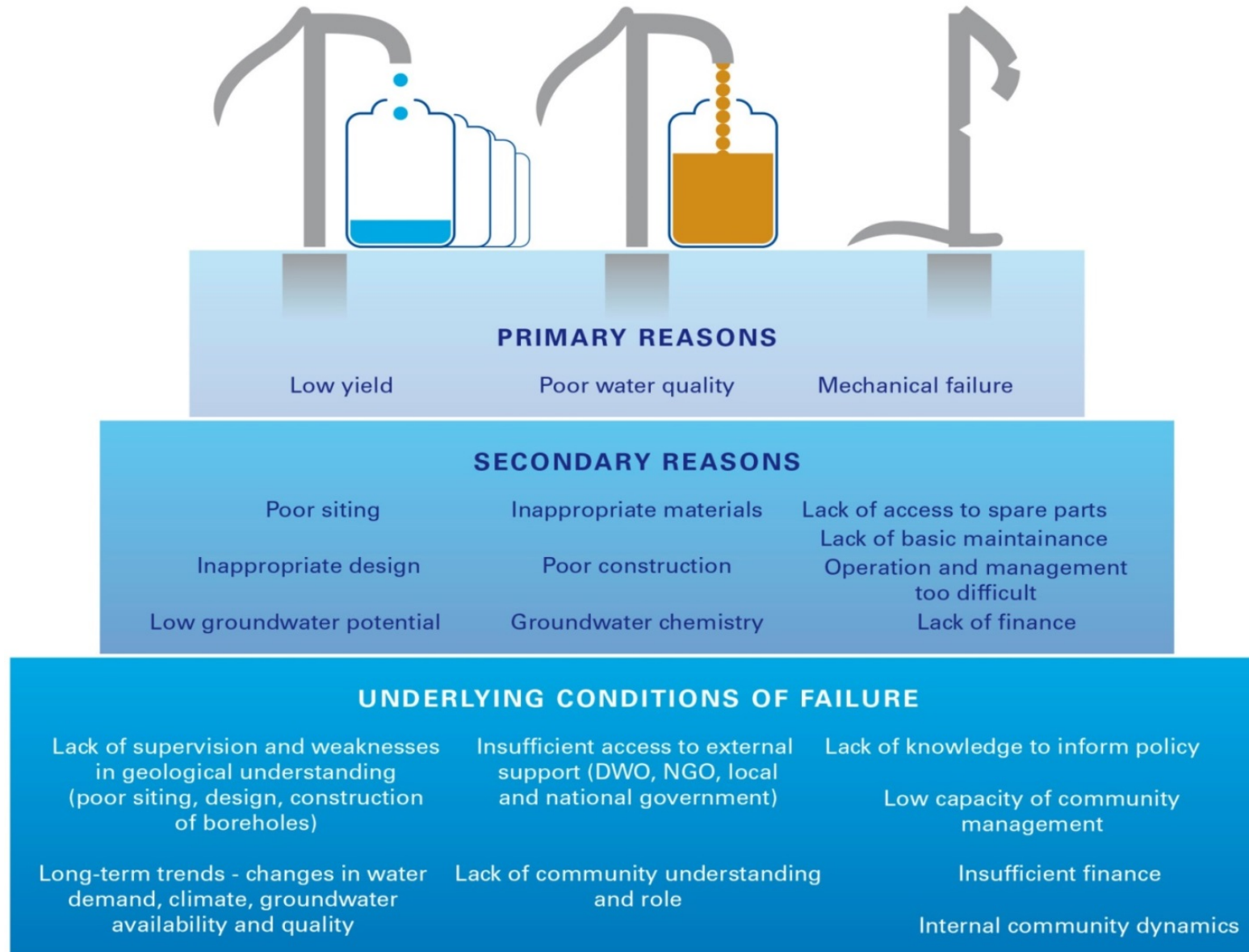
Potential impacts on WASH...

Climate trend	Impact
Less rain	Reduction in renewable SW & GW (?); threats to WS, WQ & hygiene; growing competition
More rain	Increases in renewable SW & GW (?) but: flood risk & threats to infrastructure, disruption of supply & treatment, WQ...waterborne disease, sanitation & hygiene behaviours
Higher temp	Damage to infrastructure; risk of algal blooms, toxins & organic loads in water sources
Rising sea levels	Flooding & saline intrusion; storm damage to water systems & treatment works

All result in higher costs.

Characterised by uncertainty.

Climate change and WSS

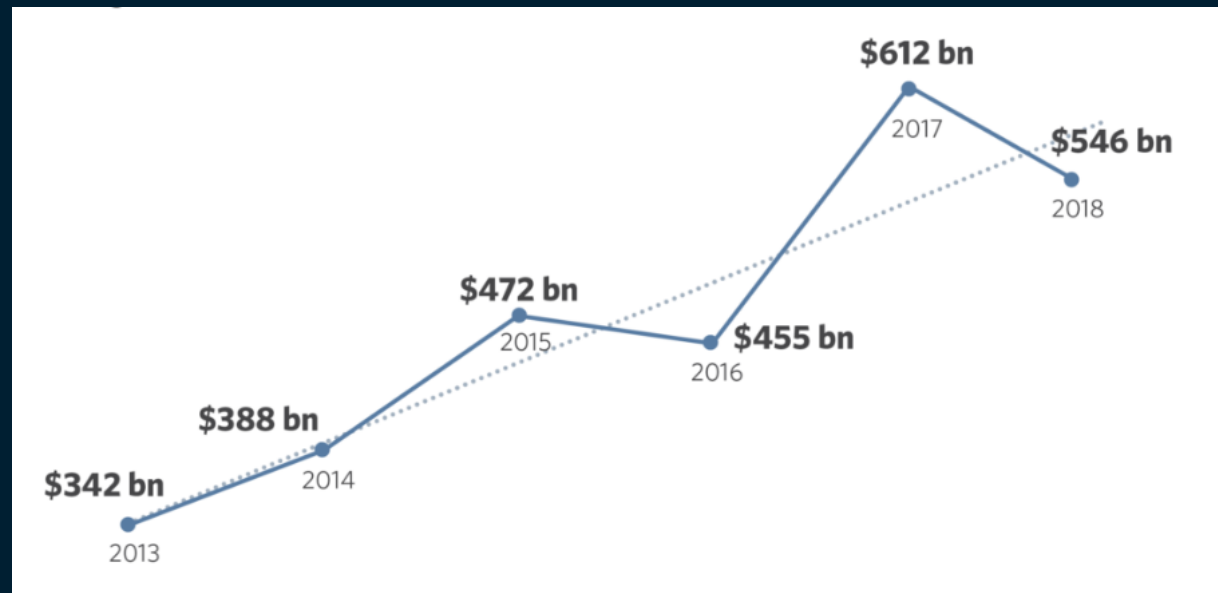


***Why does climate finance
matter for water supply and
sanitation?***

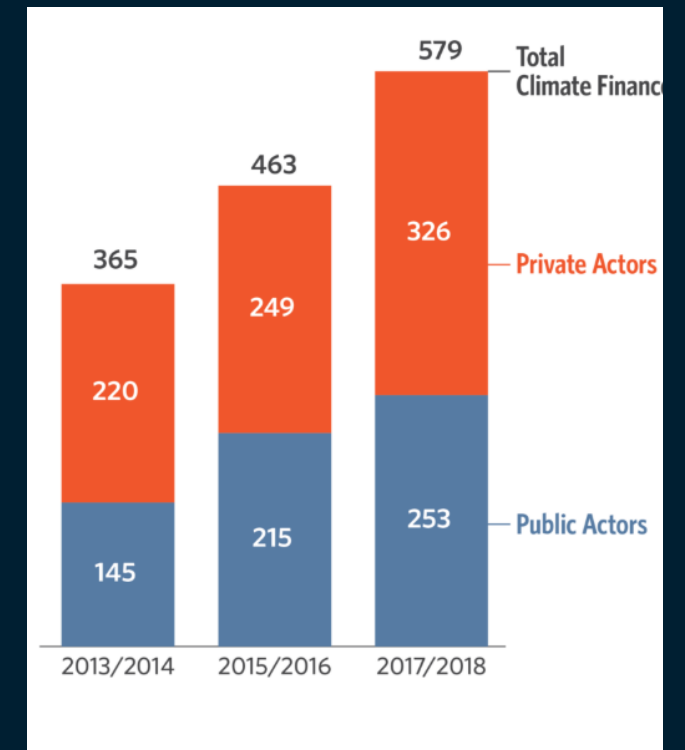


***Because climate finance
presents a powerful opportunity***

TOTAL GLOBAL CLIMATE FINANCE FLOWS 2013 - 2018

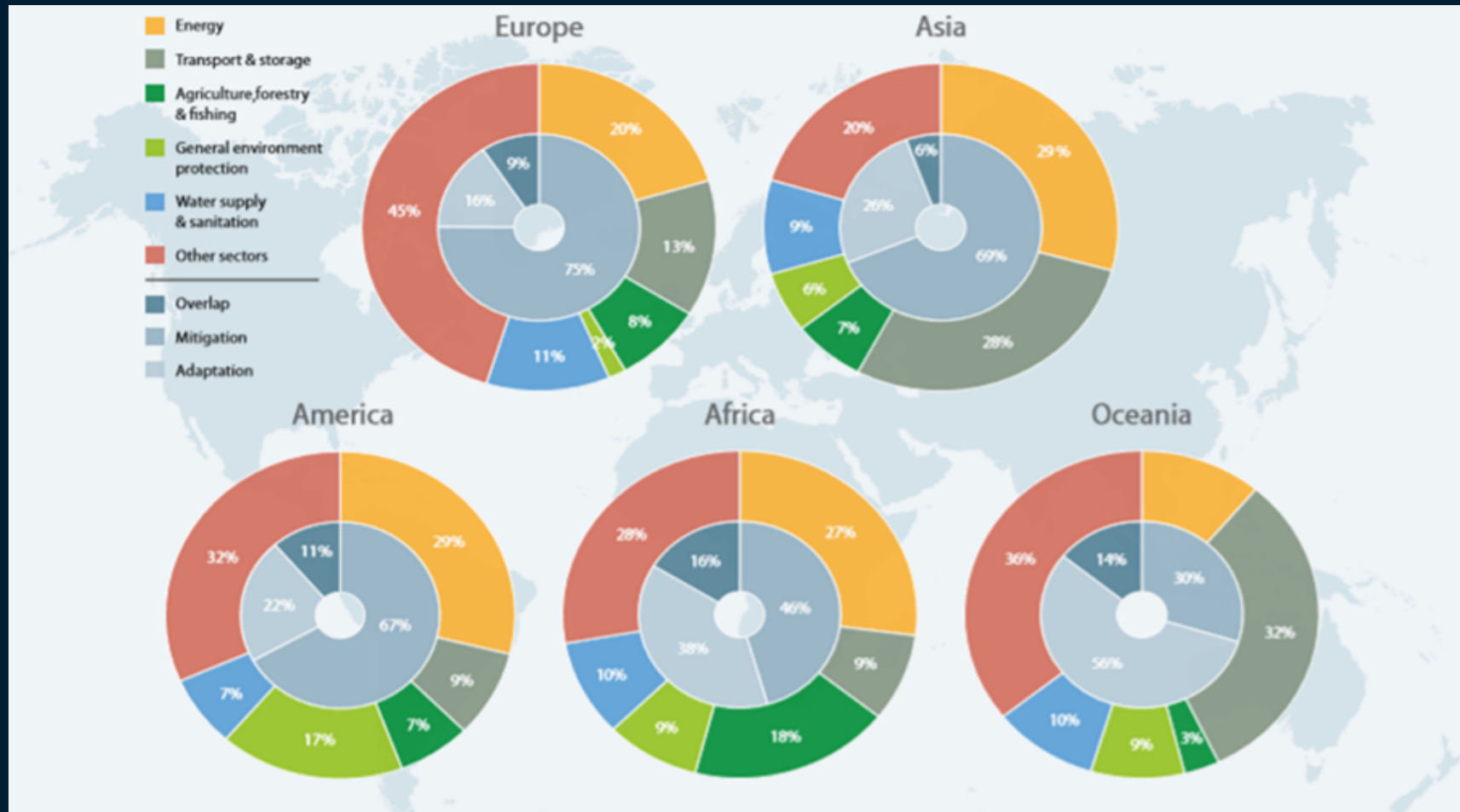


Source: Climate Policy Initiative



Regional Trends

TOTAL GLOBAL CLIMATE FINANCE FLOWS 2013 -2018



Source: Climate Policy Initiative

***...because money for climate action
is taken from aid budgets (ODA)***

**STATUS OF GREEN CLIMATE FUND PLEDGES AND CONTRIBUTIONS
(As of February 2020)**



Green Climate Fund

Prepared and Presented by Chibesa Pensulo, Water Specialist, GCF



CLIMATE FINANCE FOR WASH - THE ROLE OF GCF



GREEN
CLIMATE
FUND

CHIBESA PENSULO
GCF WATER SPECIALIST

SANITATION AND WATER FOR ALL (SWA) WEBINAR SERIES
MARCH 2020



GCF's MISSION

As an operating entity of the **UNFCCC financial mechanism**

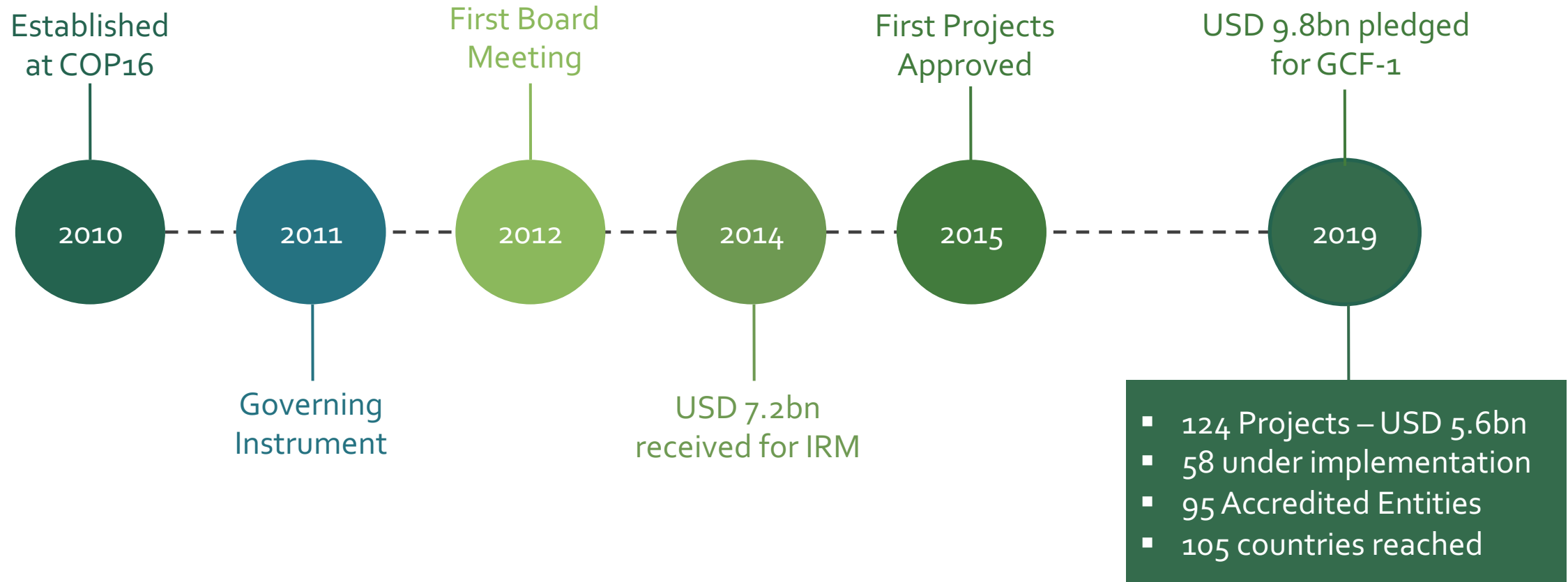


we help **developing countries** take ambitious action on climate change



to promote a **paradigm shift** to low-emission and climate-resilient development

A BRIEF HISTORY





BUILDING GLOBAL PARTNERSHIPS

A Diverse
Network of
Partners



Direct Access

Private
Sector

International
Access

95
accredited
entities

CLIMATE IMPACTS ON WASH SYSTEMS

Climate effect	Hazard	Impact on WASH sector
Decrease in precipitation	Drought	Reduction in raw water supplies, reduced flow in rivers, less dilution/increased concentration of pollutants in water, challenge to hygiene practices.
Increase in precipitation and severe weather	Flooding	Pollution of wells, inundation of wells, inaccessibility of water sources, flooding of latrines, damage to infrastructure, landslides around water sources, sedimentation and turbidity, challenges to sustainability of sanitation and hygiene behaviours, and waterborne diseases.
Increase in temperatures	Heatwaves	Damage to infrastructure, increase in pathogens in water leading to increased risk of disease.
	Melting and thawing of glaciers, snow, sea ice and frozen ground	Seasonality of river flows affected leading to a reduction in water availability in summer.
Sea-level rise	Flooding and saline intrusion into freshwater aquifers	Reduction in availability of drinking water, with high impacts on quality.



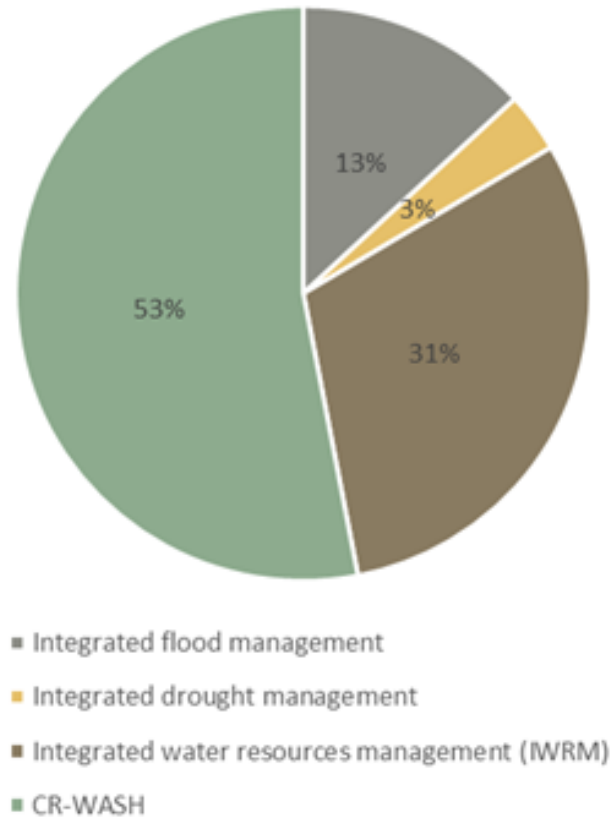
GCF'S INTEREST IN WASH

GCF's interest in WASH is in enhancing the **climate resilience of WASH systems** and **maximizing emissions reductions** therefrom.

Location	Examples
Water quality	Improving resilience of protected wells to flooding; small-scale systems for treating storm water; gully protection and rehabilitation; participatory water quality testing; treating water at the household level; water safety planning.
Water quantity	Increasing water storage, e.g. small multipurpose reservoirs and sand storage dams; rainwater harvesting technologies and artificially recharging aquifers; solar power water pumping; water conservation; increasing number of boreholes; water recycling and reuse.
Sanitation and hygiene	Raised pit latrines; septic tanks; relocation of latrines; small-scale biological systems; climate risk informed pre-triggering in community-led total sanitation approaches.
Enabling environments	Capacity building, e.g. knowledge generation and dissemination; hygiene education; decentralised management; national and local WASH sector coordination platforms that address development, DRR and emergency issues; integration of climate resilience into WASH sector strategies and plans; promotion of integrated water resources management.

WASH IN THE GCF PORTFOLIO

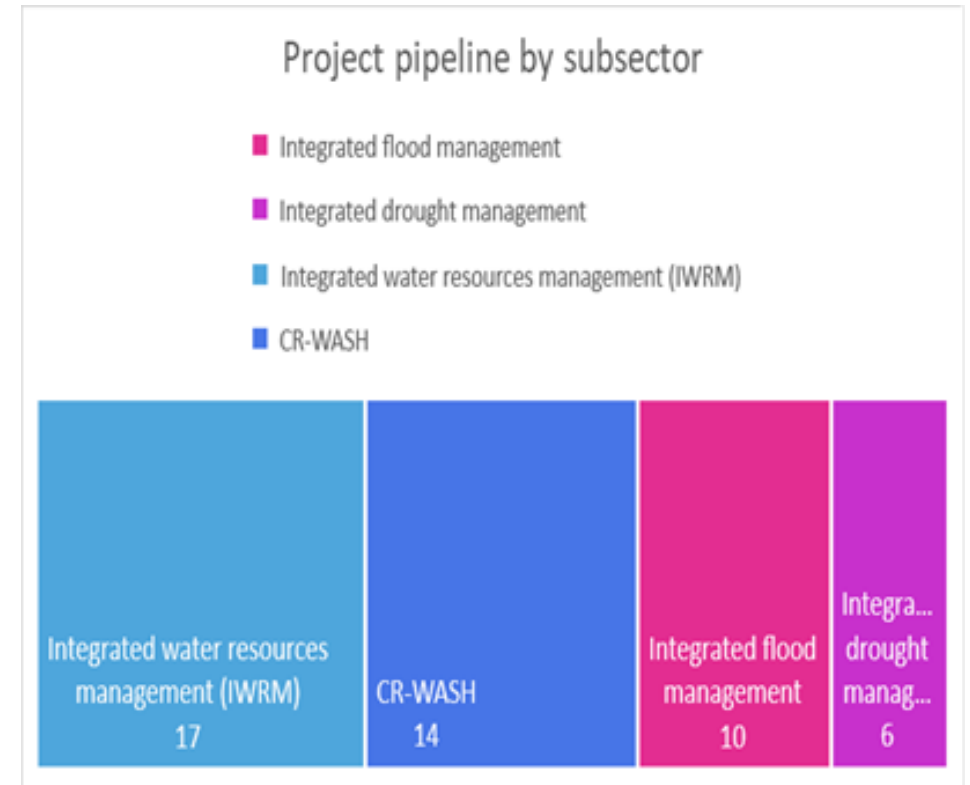
Projects amount by subsector



- CR-WASH projects make up 53% of GCF's water portfolio, with approximately **300 million USD** allocated to WASH projects, coupled with 485 million USD in co-financing.
- **Six of the seven projects are in SIDS**, where water supplies are threatened by multiple types of extreme weather events – floods, drought, hurricanes and storm surges.

WASH IN THE GCF PIPELINE

- At the start of GCF-1, there are **14 CR-WASH projects** in the pipeline, **requesting \$622 million in GCF funding**.
- Half of the projects are in Africa, mostly in response to drought. The rest are spread across the Caribbean, South Asia and the Pacific, responding to different climate hazards.
- GCF is drafting sub-sectoral guidance for countries to develop CR-WASH projects that meet both climate and sustainable development objectives.
- Improved guidance for project design, enhanced country programming and NAP support, are expected to grow the pipeline for CR-WASH over GCF-1.





KEY REQUIREMENTS FOR WASH PROJECTS

- Clear climate science basis – historical data and projections
- Quantifiable adaptation and/or mitigation impact potential, beyond 'business as usual' development project
- Paradigm shift – potential to transform the whole WASH sector in the target country
- Evidence that the project will not worsen future water scarcity
- Water projects should include sanitation interventions, and vice-versa
- Project design based on full water cycle – e.g. groundwater recharge as well as abstraction
- WASH system powered at least partially by renewable energy



For more information, visit www.greenclimate.fund

Quick links:

[GCF 101](#)

[GCF project portfolio](#)

[Simplified Approval Process \(SAP\) guidelines](#)

[Project Preparation Facility](#)

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Question and Answer



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