

## Financing the WASH sector

### Background

The Collaborative Africa Budget Reform Initiative (CABRI) is an intergovernmental organisation that provides a platform for peer-learning for the development of functional approaches to reform initiatives, to strengthen public financial management (PFM) systems. In 2017, CABRI initiated a policy dialogue on 'Value for Money in Water, Sanitation and Hygiene' (WASH) through a series of dialogues and country reviews. Government officials from finance, health and WASH-related ministries, alongside technical experts from 12 African countries convened for the debut event in Accra. Those countries were: Botswana, Burkina Faso, Central African Republic, Côte D'Ivoire, Democratic Republic of Congo, Ethiopia, Ghana, The Gambia, Guinea, Mali, Nigeria and South Africa. CABRI held two follow-up peer review workshops, in Cape Town and Kigali, to further examine how countries are tackling WASH challenges. The events provided an opportunity for countries to share and learn about common WASH challenges in Africa and highlighted the complexity of managing a sector with multi-sectoral institutions and various financing options available. This policy brief covers what was learnt through the dialogue and reviews, and provides finance, health and WASH officials with key policy considerations for better targeted investments and financing approaches for faster progress towards national WASH objectives.

### The scale of water and sanitation needs in Africa requires a shift in the way finance for the sector is planned

**Water and sanitation services have been recognised widely as human rights.**<sup>1</sup> Several African countries have long recognised the fundamental rights to water and sanitation. In Ghana, for example, access to sanitation has been a constitutional right since 1992, while South Africa has enshrined the right to water and sanitation in its Constitution, which states that 'everyone has a right of access to basic water supply and basic sanitation'. These provisions stemmed from a recognition of the fundamental role of access to water and sanitation services in the achievement of other basic rights, such as education and health.

**The adoption of Sustainable Development Goal (SDG) 6 further defined the levels of water and sanitation services to which countries should aspire.** In terms of water, services should be available to all on premises on demand, and should be affordable and free from pathogens. On sanitation, SDG 6.2 requires that all populations have

access to safely managed services, i.e. that households have access to improved facilities and associated waste transport and treatment services (including *in situ*) as well as handwashing facilities on premises.

**These aspirations starkly contrast with the current situation of water and sanitation services in Africa.** Based on 2015 estimates, 58 per cent of the population of sub-Saharan Africa (SSA) have access to basic drinking water, and only 24 per cent benefit from safely managed drinking-water services. While the vast majority of the population in North Africa (94 per cent) has access to at least basic water services, several communities in the region remain without access to any form of improved services.<sup>2</sup> Sanitation lags behind: 20 per cent of the continent still practises open defecation (nearly 99 per cent of whom reside in SSA) and only 28 per cent benefit from at least basic sanitation services (WHO/UNICEF 2017). In total, based on projected population growth, nearly 1.4 billion Africans will need to gain access to safely managed water services by 2030, and 1.2 billion to safely managed sanitation services, if the continent is to meet its water and sanitation SDG targets (Hutton & Varughese 2016).

<sup>1</sup> UN Resolution 64/292 explicitly recognises the human right to water and sanitation, and acknowledges that clean drinking water and sanitation are essential to the realisation of all human rights.

<sup>2</sup> Data on accessibility to safely managed services is only available for a few countries in Africa.

**The benefits of investing in water and sanitation services are potentially immense.** The projected economic returns of universal access to basic sanitation are US\$4.3 for every US\$1 invested in North Africa and US\$2.8 for SSA. Investments in basic drinking-water services can also yield significant economic benefits, estimated at US\$2.5 per dollar invested in North Africa and US\$2.4 per dollar invested in SSA. The main benefits of WASH investments in Africa are derived from the value of time savings and health-related improvements, especially the value of saved lives (WHO 2012).

**However, such aspirations come at a high cost.** SSA alone is estimated to require US\$35.5 billion every year in capital costs to reach universal access to safely managed water and sanitation services (Hutton & Varughese 2016). Sustaining these interventions will require an equally important investment in operational and maintenance costs. When looking closely at expenditures on WASH, however, total investments (including from governments, households and donors) are far from sufficient to meet universal access to basic services.

**The magnitude of investment needs and operating costs calls for a shift in the way the sector is currently financed.** To reap the economic benefits, WASH services require a substantial increase in investment sources, including households, national and local governments, and external funds from donors. Public finance (from governments and donors) for WASH should not only increase but also leverage on alternate sources of financing, including households' private investments and the private financial sector. However, tapping into more extended sources of funding calls for increased efficiency in the sector as well as improvements in the creditworthiness of water and sanitation utilities.

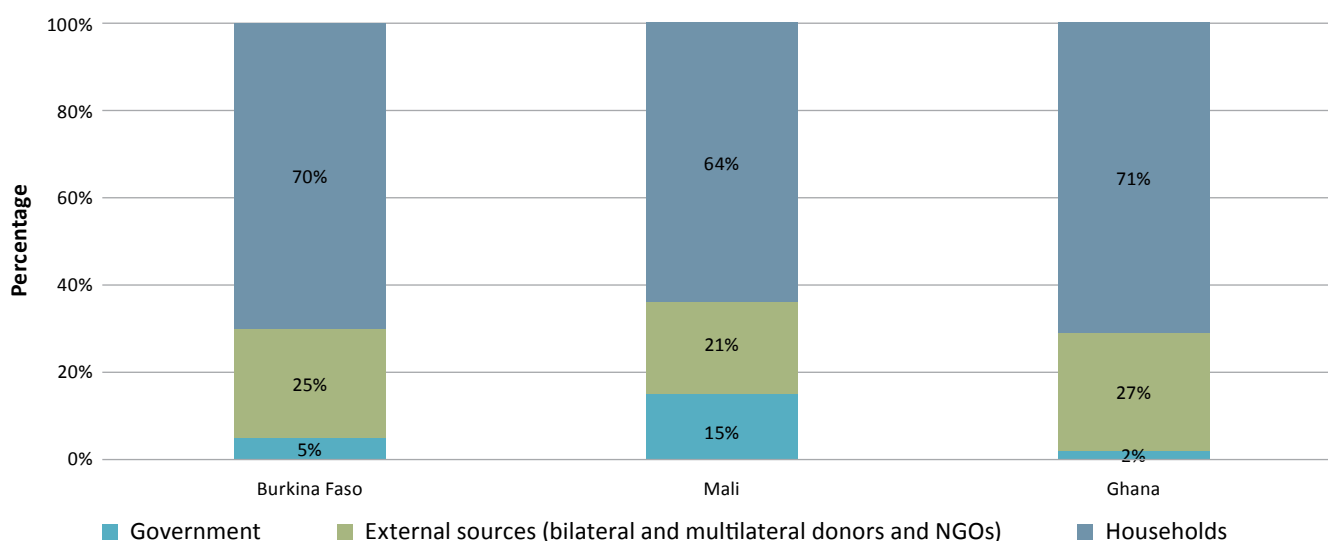
**In many countries, user contributions are underestimated, with little by way of strategy to leverage**

**on such contributions to improve service levels.** As presented in Figure 1 below, users effectively represent the largest contributors to financing the WASH sector in Burkina Faso, Ghana and Mali. Lack of access to a formal water provider forces many communities to buy from private vendors, some of which operate illegally and charge exorbitant rates for sub-optimal services (Goksu et al. 2017). According to a WaterAid study, the minimum WHO requirement for water consumption, 50 litres per person per day, represents 25 per cent of a poor household's income in Ghana (WaterAid 2016).

**Furthermore, many African countries rely on unpredictable external funding in the form of grants and loans from international finance organisations and NGO funding to finance WASH services.** As shown in Figure 1, external funding represents more than 20 per cent of overall funding for the sector, surpassing governments' contributions from domestic resources. The dependency on external funding creates uncertainty for national WASH planners and policy-makers, as external funds tend to be unpredictable, and are often poorly co-ordinated with national interventions. In some cases, this overreliance has a detrimental influence over the sector leadership that is needed to move WASH services forward.

**CABRI's WASH policy dialogue and subsequent reviews focused on how to optimise public investments in WASH services, while improving efficiency in the use of public funds.** Discussions benefited greatly from the wide range of countries taking part in the event, which presented their own challenges and initiatives: from Guinea, which has had no public investments in WASH services since the 1990s, to Mauritius, carefully implementing a master plan for the highest level of wastewater treatment services, and South Africa, facing water shortages on a scale never anticipated. Critically, representatives from finance and line ministries

Figure 1: Sources of funds for WASH in Burkina Faso, Mali and Ghana



Source: WHO TrackFin Initiative: Burkina Faso (report May 2017); Mali (report September 2018); Ghana (December 2017)

concluded that there is a fundamental need for the WASH sector to address inefficiencies in order to see financing taking off and the achievement of the required levels of service delivery. Countries should consider three main issues when identifying sustainable financing strategies for the sector:

- planning WASH services in line with overall national objectives;
- identifying the costs of reaching national objectives beyond investments; and
- designing a financing strategy based on a sound knowledge of financial flows, leveraging efficiency gains and different sources of funding.

These are considered in more detail below.

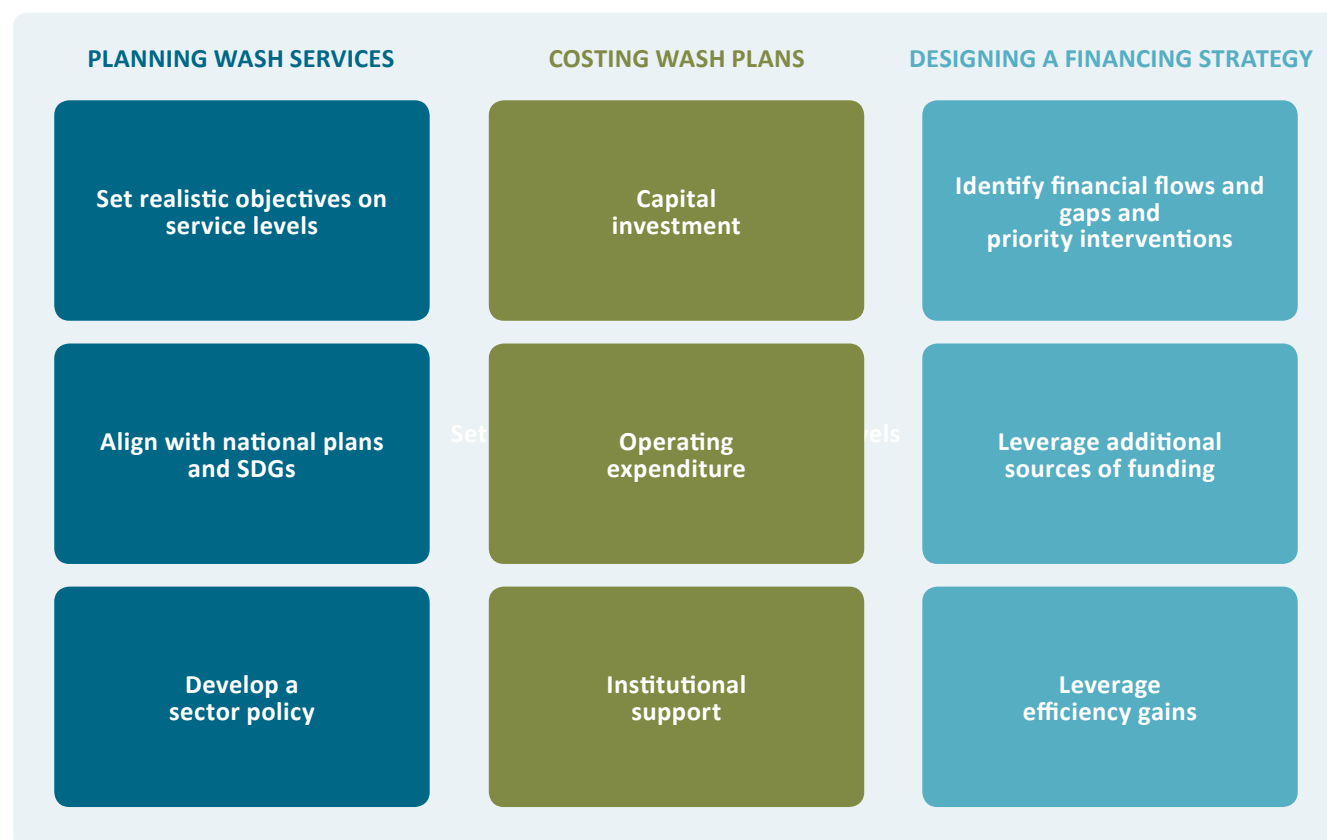
### Planning WASH services: developing realistic policy ambitions and aligning with national development objectives

**In order to secure financing for the sector, clear WASH plans need to be developed.** A plan establishes specific service-level targets and the level of infrastructure and associated services needed to reach these objectives. Therefore, WASH plans should be developed on the basis

of a good knowledge of existing water and sanitation assets and populations that benefit from existing services. Building this knowledge, particularly in rural water and decentralised sanitation services (through an asset inventory), is a resource-intensive activity, given that services are often managed by communities and are not systematically captured and monitored. Ideally, such exercises should be ongoing and embedded in asset maintenance. The potential benefits of conducting such inventories are significant, as they allow a more precise definition of capital investment needs. In Benin, the government has initiated a countrywide asset inventory, and the mapping of small-scale rural piped water as part of a wider strategy to professionalise rural water services (Adokpo Migan, Trémolet & Mansour 2015).

**WASH plans should clearly embed national development objectives.** Most governments have medium- to long-term development plans that guide the setting of priorities and spending objectives. Irrespective of whether the plan emphasises prosperity, inclusiveness, innovation or gender equality (or all these elements at once), the improvement of WASH services must be presented as a pathway towards the national vision. When presenting WASH plans and objectives to finance ministries or other stakeholders, it is important that linkages are made with the national vision, showing how WASH sector strategies contribute to the achievement of national objectives, while ensuring that those plans

Figure 2: Key considerations in financing the WASH sector



are co-ordinated with other sectors' plans. For instance, infrastructure development, including water services, is considered a development pillar in Rwanda's national development plan. WASH sector policies and strategies, therefore, are aligned to the plan (see Box 1).

### Box 1: Ensuring sector policies fit within national development objectives – the case of Rwanda's sanitation policy

Rwanda issued a new sanitation policy in 2016. The policy document makes strong links with the country's Economic Development and Poverty Reduction Strategy (EDPRS 2), which is committed to reaching very ambitious targets in sanitation, among them the vision of attaining 100 per cent sanitation service coverage by 2017/2018. The sanitation policy also clearly falls within the SDG 6 framework and establishes clear linkages to other goals, such as those relating to health, food security and climate change, among many others. Moreover, the policy establishes its coherence with other national development plans, including the country's long-term plan, Rwanda Vision 2020, as well as related government policies. Firmly embedding sector policies within national development objectives and demonstrating their coherence with the national vision enables the gathering of support and political commitment towards sector objectives.

Source: Ministry of Infrastructure of Rwanda (2016)

**WASH plans should reflect national targets for the sector, in line with the SDG commitments. However, governments are not bound (and sometimes do not have the means) to target the highest service levels for all.** The SDGs provide aspirational targets for national governments, and actual government targets towards 2030 remain to be identified according to countries' circumstances.<sup>3</sup> In other words, WASH sector ministries need to develop sector policies (for water, sanitation and hygiene) that set ambitious, yet realistic and equitable service level targets for countries' populations, depending on their starting point and on what they can afford. In a country where open defecation is rife, at the very least, the practice should be eradicated by 2030. However, it is uncertain whether access for all to

basic sanitation, let alone safely managed sanitation, is achievable by that date.<sup>4</sup>

**The question of service-level objectives is critical, not only because it provides the country with a sector vision, but also because these objectives entail specific approaches and technologies and, therefore, different cost levels.** In terms of sanitation, universal access to safely managed services requires the whole of the country to have sufficient coverage of household facilities and associated removal and treatment of waste services to manage the needs of all. Similarly, providing safely managed water services to all means ensuring that safe drinking water is provided on premises through piped services or through adequate systems of self-supply, as opposed to hand-pump services or water kiosks. Investing in the necessary infrastructure involves capital costs that may not be affordable for many nations. Service levels and associated technologies should be set by line ministries, in dialogue with development partners and the private sector.

**Establishing WASH sector co-ordination mechanisms is important for delivering the national vision and further developing national policies.** Sector co-ordination can be of great benefit in avoiding duplication of interventions and identifying approaches and technologies that work and provide value for money. For example, in a country where sanitation plans have been developed traditionally with the view that only sewerage systems can provide the services required, learning from ongoing initiatives to develop alternative, more affordable, onsite sanitation services will be critical for the country to achieve ambitious sector objectives by 2030. Such co-ordination platforms, which should be led by governments, are also useful in co-ordinating the implementation of sector plans and assessing progress towards objectives. South Africa, for example, has set up national technical working groups for each of the SDG 6 targets (Bannister 2018).

**Increasingly, planning for WASH services needs to consider resilience to external shocks.** The African continent's exposure to climate change is growing. Changing patterns of water resources, together with rising demand for water services in urban agglomerations, is exerting pressure on service providers to diversify sources of water and to manage demand. While the most notorious case is the water shortage in the city of Cape Town, other cities are also affected by water shortages (see Box 2), floods and coastal erosion, which particularly affect the delivery of sanitation services.<sup>5</sup>

3 According to the UN Resolution on the adoption of the 2030 Agenda (Declaration 55): 'Targets are defined as aspirational and global, with each government setting its own national targets guided by the global level of ambition but taking into account national circumstances. Each government will also decide how these aspirational and global targets should be incorporated in national planning processes, policies and strategies.'

4 In April 2018, at the SWA high-level meeting, discussions were held to introduce more targeted ambitions for WASH service delivery, depending on countries' contexts, by introducing the concept of 'basic plus'.

5 In 2018, the World Bank approved a US\$210 million project to increase the resilience of several West African coastal cities (see <http://documents.worldbank.org/curated/en/280421523498466209/pdf/PAD2454-REVISED-PUBLIC-PAD-WACA-FINAL-05012018.pdf>).

### Box 2: Lessons on building water resilience from Beaufort West

Beaufort West is a small municipality of 51 000 households facing severe water shortages due to prolonged periods of drought. To address the water shortages, the municipality had to initiate demand management measures, successfully reducing total water consumption from 6.9 Ml/day to 5.2 Ml/day. As the dam was empty due to low rainfall, Beaufort West had to explore other water resources. Beaufort West was on the brink of 'Day Zero', with severe consequences for the town's economy: farmers suffered from livestock deaths, tourism declined, and agricultural production was affected severely. 'Day Zero' was averted due to investment in the development of alternative water sources, particularly groundwater as well as treated wastewater, and intense communication campaigns to raise the population's awareness of water consumption. Water shortages also incentivised the municipality to reduce losses of municipal water from 52 per cent to 41 per cent in 2016/2017. A major lesson from the drought, according to Beaufort West's municipal manager, is that 'you can no longer solely rely on surface water or dam water – you need to diversify in order to become a resilient water city'. Beaufort West's experience also demonstrates that cities need to prepare for uncertainty and have in place contingency plans in order to become resilient.

Source: Haarhoof (2018)

#### Planning for the provision of WASH services requires policy-makers to ask where efficiencies can be gained.

Adequate funding of the WASH sector is critical if countries are to achieve their policy objectives. However, it is also critical to identify where efficiencies can be gained before committing to large investment projects. These inefficiencies are further explored in the section below.

#### Costing WASH plans: it's not just about capital investment

**Costing for WASH plans is a critical step in identifying the funds that need to be mobilised to achieve national ambitions, potentially revise plans for more realistic objectives and to identify appropriate sources of funds.**

**In order to plan for sustainable investments, it is critical for planners and policy-makers to consider the operating costs of the services.** Low sustainability

of capital investments is an issue in many countries; infrastructure is provided, but lack of funds for operating costs undermines the continuous supply of services, leading in many cases to facilities and systems failing to function (or underperforming). This ultimately results in large investments being lost: an estimated 30 per cent of hand-pumps in Africa are not functioning. Estimating operating costs is essential in order to design a financing strategy that will enable functional and sustainable water and sanitation infrastructure (Fonseca et al. 2011).

**In countries where infrastructure needs are vast, as is the case for many in SSA, capital investment is likely to represent the bulk of funds required to achieve a country's vision.** When establishing capital costs, it is also important for countries to include depreciation costs. In addition to capital investments, it is necessary to factor in investments required to trigger or increase demand for water and sanitation services. Burkina Faso, for example, estimated that 7 per cent of the national budget should be allocated to demand creation and community mobilisation.<sup>6</sup>

**Often neglected due to scarcity of public funds, institutional support is essential to achieve expected service levels.** Institutional support costs include those related to the development of national strategies, capacity-building of national and local institutions and service providers, monitoring of services, as well as the development and enforcement of service regulations. A critical factor in WASH sector inefficiency is the low capacity of the sector's planners to absorb the funds. In Mauritius, for example, the line ministry for water and sanitation (the Ministry of Energy and Public Utilities) has a capital budget execution of only 60 per cent. According to the finance ministry, this is due to issues arising during project preparation, and during project management. Focus should also be on improving cumbersome procurement and other administrative processes. The backlash of budget underspending can lead to the deprioritisation of water and sanitation investments by the ministry of finance, which could allocate funds more efficiently elsewhere.

**In decentralised contexts, developing local governments' capabilities to design, procure and oversee water and sanitation services, with adequate incentives, is critical to ensuring sustainable services.** Indeed, many countries have devolved the responsibility for service provision to decentralised municipalities, but this devolution has not necessarily been accompanied by comprehensive training and assistance to support local governments in their new responsibilities. Ghana, for example, has adopted a decentralisation policy since the 1990s. To date, however, a dedicated central agency (the Community Water and Sanitation Agency)

<sup>6</sup> Burkina Faso, presentation at CABRI event in Kigali.



is still in charge of procuring and overseeing most rural water works. Where incentives for WASH investments by decentralised governments are weak, as in Kenya, the risk is to see WASH left at the bottom of local governments' priorities (see Box 3).

### Box 3: Decentralisation with limited accountability for WASH: the case of Kenya

In 2010, Kenya voted for a new Constitution, which created 47 new county governments, to which were devolved the responsibility for basic services, including water and sanitation. Devolution was pursued with a view to bringing service delivery functions closer to the people and to progressively realising more equitable service delivery.

Despite the presence of national targets for WASH and the right to water guaranteed by the Constitution, many of the counties' first (2013–2017) medium-term county-integrated development plans did not contain specific county-level access targets for WASH. Consequently, it is not possible for these counties to assess the degree to which the county policy is aligned with national objectives. The approach taken to WASH policy and budget allocation is largely at the discretion of the county administrations. The fact that there is a high degree of fiscal decentralisation and few direct (financial or accountability) links with the national line ministry, means that budget allocations to WASH vary significantly between the counties, particularly in terms of development expenditures, which raises questions related to geographical equity in funding and service provision.

However, there are some positive examples, particularly with participatory budgeting in Makueni County. The county engages as many as 3 000 villages on an annual basis to identify key development projects. These are then prioritised at the ward level and hundreds are selected and included in the county development budget. Water projects constitute nearly two-thirds of all projects, over half of the total financing and account for 37 per cent of the total Makueni development budget.

Source: (CABRI 2017a)

case in point is the situation of sanitation services. In many African countries, responsibilities for sanitation are fragmented across several ministries. In Benin, for example, urban sanitation falls within the responsibility of the Ministry of Health (responsible for household-level sanitation), the Ministry of Quality of Life and Sustainable Development (in charge of faecal sludge transport) and the Ministry of Water (with a mandate for wastewater). If mandates and responsibilities are not clearly set out, such fragmentation can deprive the sanitation sector of the leadership needed to develop and implement a coherent policy to tackle the urban sanitation challenge.

**In a context such as Benin, and the vast majority of SSA countries, where sanitation services are de facto provided by private operators, the development of appropriate regulations is needed to improve the structure of urban sanitation markets.** For example, only a few African countries have in place regulatory mechanisms that recognise urban sanitation service providers and provide operating standards. As a result, urban residents are provided with sub-optimal services (which put at risk populations and service providers alike), while sanitation markets are dominated by small, fragmented providers unable to operate at scale. Some countries, such as Senegal and Uganda, have seen emerging initiatives to develop such regulations. In many countries, however, legislation and regulations around onsite sanitation, including standards for faecal sludge management and treatment, are absent, limiting the take-off of scalable and potentially cost-effective innovations (Verster & Palfreman 2018).

**Investments in regulatory institutions and instruments for the drinking water sub-sector are also lacking, especially in rural areas.** The lack of regulatory instruments with institutional mandates to enforce them, such as performance and reporting standards for water utilities, disincentivises operators from providing services that would meet the expectations of governments and the general population.

**Investing in strengthening the capacity of water services providers is also critical in ensuring more efficient water services.** While urban utilities struggle with high water losses as a result of poor operational standards and a lack of investment in asset maintenance, rural water service providers are generally fragmented, operating small schemes unable to generate sufficient revenue. Many countries have witnessed the predominance of the so-called 'community-based management model', where small to medium-size water systems (from hand-pumps to small piped systems) are managed at the village level by members of the community themselves. Very little attention has been given to adequately strengthening the capacity of these service providers, while technical assistance to improve

**Furthermore, developing clear institutional mandates and allocating financial resources to mandated institutions increases WASH sector efficiencies.** A

the systems maintenance are *ad hoc* rather than planned and routinely provided. Such institutional arrangements often result in poor services, as assets are not adequately maintained (due to both limited operating capacity and lack of sufficient funds to cover operational costs). Increasingly, governments are realising the need to develop more professionalised service delivery models for rural areas, whether through the promotion of larger private operators able to generate attractive revenue,<sup>7</sup> or through community-managed services with simplified regulatory approaches to enhance oversight.

**In reality, governments' reflections on optimum management models for water and sanitation services can only go hand in hand with a reflection on financing options.** For example, attracting professional water operators, especially in rural areas, requires that the sub-sector provide an attractive source of revenue. In turn, this requires considering what sources of funds could contribute to improving service providers' revenue streams, whether tariffs or government subsidies or a combination of both. Such reflections should be part of a wider financing strategy for WASH services, as outlined below.

<sup>7</sup> This trend is emerging in a number of West African countries, such as in Burkina Faso, Mali and Senegal.

## Designing a WASH financing strategy: understanding financial flows and allocating public funds in the most efficient way

**Given that competing national priorities need to be funded with limited public resources, deep reflection on appropriate financing strategies for WASH is needed, so as to leverage additional financing from a variety of sources, including service users and the private financial sector.**

### Understanding financial flows in the WASH sector

**It is crucial to understand existing financial flows in the sector when designing a financing strategy.** In particular, the WASH sector should seek to assess how much is currently allocated from all financing sources (tariffs, taxes and transfers) and who is financing the sector. In this assessment, a critical question for governments is whether public funds are being allocated in the most effective and equitable manner, which is most often not the case. For example, a World Bank study found that in the Tunisian capital, where networked water and sanitation services receive significant government subsidies, high-income households receive 1.4 times the subsidy the poor receive for water supply, and twice

#### Box 4: The case of the Langrug community, an example of improved professionalisation of wastewater treatment through community and innovation

Langrug is an informal settlement of 2 500 households on a steep incline near the village of Franschoek in the Western Cape, South Africa. A growing population combined with a difficult geographical position makes sanitation services difficult to provide to Langrug's residents. Given the lack of infrastructure, greywater and stormwater often accumulates outside residents' homes and ends up flowing down to the Franschoek and adjacent rivers. This has had an impact on the community's health, specifically E. coli and skin conditions due to polluted streams near the houses.

Given the municipality's budget constraints, investing in large piped infrastructure for water and sanitation was not a realistic option. Alternative models for delivering and monitoring these much-needed services were required. The Genius of Space is an innovation hub created to showcase innovative technology for waste management and water treatment. The hub piloted 125 households in the community and hired local labour to implement innovative solutions, such as disposal points with a low-tech filtration process, to ensure that they could be operated and maintained by the community. Flexible pipes were selected for branch connections to snake between existing pathways, in order to deliver wastewater through multiple treatment and filtration processes, including tree gardens. After 18 months of the pilot phase, communities were able to access wastewater services at an efficient cost, to reduce the incidence of illnesses caused by E. coli and to reduce river pollution levels. The project also promoted much-needed local employment, since most of the work and maintenance is carried out by the community. The relationship between workers and the community members also ensures alternative wastewater management practices in the neighbourhood are more easily promoted. The Langrug example provides for interesting discussions among policy-makers considering less-traditional delivery models at a more sustainable cost.

as much as the poor for sanitation because they utilise significantly more water and wastewater services (World Bank 2016).

**Understanding financial flows for WASH can be a challenge for many countries, where responsibilities are located within multiple national agencies and multiple entities are involved in financing the sector.** In order to support countries in this task, the WHO has developed a methodology to track financial flows to WASH. Akin to the 'health accounts developed in the health sector, the methodology (also known as TrackFin) enables countries to identify financial data that can be critical for planning services. In Mali, for example, TrackFin highlighted that service users effectively contributed up to 64 per cent of all funding allocated to the WASH sector in 2014 and 2015. Such data can be useful in designing a financing strategy in which user contribution plays a critical role.

**In order to gather momentum to design and reform WASH financing strategies, it is critical to present the results of financial flows and performance outcomes to finance ministries and to engage in a national discussion on how best to allocate public funds in the water sector.** For example, where evidence has been gathered indicating that national funding is skewed towards the urban water sector (e.g. significant subsidies are provided to urban water utilities), while rural sanitation is starved of public funds, relying nearly entirely on erratic and unpredictable donor funding, questions should be raised as to the value for money and equity of this financing approach and how to better allocate scarce public resources. A discussion on the assessment of financial flows, together with a further narrative on sub-sector efficiency and performance, can also help in understanding where institutional support is needed.

**The guiding principles in the design of WASH financing strategies should remain the vision and policy objectives of the country concerned.** Discussions with finance ministries and other stakeholders, including development partners, should result in 'action points' to enable the allocation of financial resources to achieve sector policy objectives:

- allocating national funds in priority sub-sectors (i.e. rural or most vulnerable groups, etc.), for which other sources of funds (e.g. from users) are difficult to leverage;
- identifying strategies to leverage and increase other financial contributions, particularly from users; and
- identifying mechanisms to increase public funds from national governments and external donors.

### Identifying public finance priorities in the WASH sub-sectors

**While most African countries require investment across the board, some sectors are particularly in need of public funding support.** There is evidence that

rural services receive considerably less funding than urban areas. A review of public expenditure in 11 African countries showed that although rural populations represent 70 per cent of the unserved, they benefit from only 19 per cent of the expenditure on sanitation and drinking water (UN-Water/WHO 2014).

**Prioritising the use of public funds is not only a matter of equity, but also a matter of developing the right incentives for service providers and delivering more value for money.** While some services, such as onsite sanitation, would benefit greatly from targeted subsidies, immense benefits could be gained in the urban water supply by incentivising adequate governance, rather than injecting public funds into capital investments, maintenance and the covering of operating costs. The regular allocation of additional public funds to a run-down water utility incurring high water losses provides little incentive for the utility to make the turnaround needed to improve its financial situation. As highlighted in a World Bank study, 'targeting subsidies to the right scale and type of service can generate more value for money. For example, many governments tend to subsidize sewers and associated wastewater treatment in urban areas while maintaining explicit policies not to subsidize on-site sanitation in peri-urban or rural areas' (Goksu et al. 2017).

**Shifting the focus of public funds does not mean, however, that other sub-sectors should be neglected.** Rather, complementary and alternative approaches should be explored and adopted by governments to leverage other sources of funds. A sample of such approaches is presented below.

### Leveraging and increasing financial contributions from users and the private sector

**A potential strategy to increase financing to the WASH sector is to increase tariffs.** Very few utilities in Africa charge tariffs that enable the recovery of operating costs, let alone depreciation costs. Globally, over 50 per cent of urban utilities indicate that tariffs are not regularly reviewed or are not adjusted after review (UN Water/WHO 2017). In Côte d'Ivoire, for example, the national urban water utility, ONEP, has not reviewed its tariffs since 2004.<sup>8</sup> Only an estimated 15 per cent of service providers cover their operating costs and create a surplus (understood to mean cash revenue exceeding costs by at least 20 per cent) (Goksu et al. 2017). Low tariffs not only do not allow service providers to maintain services, but also create a dependence on government subsidies, in turn, reducing any performance incentives. The result is a situation in which services deteriorate, causing the general public to mistrust public utilities and resort, where possible, to alternative and more

<sup>8</sup> See <https://www.cabri-sbo.org/en/events/politiques-et-strat%C3%A9gies-de-financement-pour-lam%C3%A9lioration-des-services-deau-dassainissement-et-dhygi%C3%A8ne>



expensive water vendors or to self-supply, which further diminishes water utilities' revenue base. When increasing tariffs, it is important to consider strategies that ensure the poor can still access services, through, for example, introducing block tariffs, in which the rich, who consume more water, pay a higher price for it than the poor, who tend to use less.

**However, tariffs alone are not a panacea and should be accompanied by a greater focus on strengthening governance and raising service levels.** More emphasis should be placed on improving WASH sector efficiency in administrative and delivery functions, with the provision of appropriate incentives for performance. For water utilities, efficiencies can be gained by reducing water losses, adopting adequate staff ratios, curtailing corrupt activities and controlling energy costs, among others. Efficiency gains, in turn, reduce operating costs and, consequently, the amount of subsidy needed. Thus, addressing such inefficiencies can ease the burden of a tight fiscal space and can free up resources to support other sub-sectors or disadvantaged communities (CABRI 2017b). More efficient and reliable water services can also enhance the legitimacy of a government's increase in tariffs.

**Strengthened governance and operational performance, combined with tariff reforms, can also improve water utilities' credit-worthiness and create opportunities to access commercial finance.** Under a strong regulatory framework, such opportunities would allow service providers to borrow and invest in expanding and improving the quality of water and sanitation services, without having to wait for scarce public resources to be made available (Goksu et al. 2017). In the long run, such reforms can also lead to increasing private sector participation in the management and financing of water and sanitation services.

**In many countries, where tariff reform is not part of the sector agenda, other mechanisms can be introduced to improve the budgets of water service providers.** In peri-urban and rural areas, strategies to increase consumption could be implemented by supporting the development of household water connections (which would increase daily consumption). The clustering of service areas, which is being implemented in a number of countries (e.g. Benin, Mali and Burkina Faso) is also a potential solution to increase access to services and, if adequately designed and implemented, to increase operators' revenues and, therefore, the financial sustainability of services. Such measures could also attract private operators, who could contribute to making efficiency gains, if regulatory instruments exist, particularly contracts, service monitoring systems and service-level standards.

**Microfinance is increasingly appearing as a potential solution to support household investment**

**in sanitation services.** Some governments are realising that the provision of direct subsidies towards household sanitation facilities is not realistic given their budget constraints and, therefore, households need to be supported in carrying out the investments required to improve sanitation services. Evidence is also mounting that sanitation achievements are more sustainable where households contribute to funding their own facilities. Access to microfinance services can increase demand for improved services, since it enables the smoothing out of investments over time. The development of microfinance services for WASH can be supported as part of a wider strategy to promote demand for improved services, which would also embed behaviour-change campaigns and the development of the supply chain for the WASH services sector. The potential of microfinance for WASH also depends on a country's financial context, however. In contexts where microfinance institutions (MFIs) face constraints in access to lending capital, the development of WASH-focused financial services may not appear as an attractive proposal for MFIs without the provision of guarantees and other de-risking instruments. In all contexts, the scaling-up of financial services for WASH requires substantial investments in building financial institutions' understanding of the WASH sector's needs and opportunities (Trémolet, Mansour & Muruka 2015).

### Mechanisms to increase domestic funds for the water sector

**The potential of taxes and surcharges to increase public funds allocated to the water sector remains generally underexplored on the African continent.** In contrast, many developed countries have created dedicated fiscal instruments for financing water services. In France, for example, a National Fund for the Development of Water Supply and Sanitation was created in 1954 to help rural municipalities with the development of their water and sanitation services. Financial resources for the fund are raised from an additional charge to the water bill as well as from a tax on the revenue from the mutual betting system in horse racing established at national level. The fund, therefore, contains a cross-subsidy element, whereby funding for water is sourced from taxes on another sector.<sup>9</sup> Such mechanisms need to be further explored further in Africa.

**Although many countries have embedded the principles of 'polluter pays' and other water resource management principles in their legal and policy documents, these remain largely unenforced.** Many countries have systems in place that impose fees or taxes for water abstraction or water pollution. Revenue

<sup>9</sup> See [www.fndae.fr](http://www.fndae.fr)

collected by way of such taxes could be earmarked for water and sanitation, feeding into a dedicated water fund, or used by the relevant authority. As with any taxation system, the setting-up of environmental taxes requires not only legislation, but also the processes, human resources and political will to enforce them effectively.

**In decentralised countries, financial instruments can also be introduced to incentivise investment by local government in key areas, including WASH services.** In South Africa, for example, the government has set up a conditional grant transfer to municipalities, which requires that local governments make investments in basic infrastructure such as water services. In Ghana, until 2015, the District Development Fund (DDF) provided performance-based grants to municipalities, based on an assessment of a district's institutional capacity and organisation as local government. Funds from the DDF could only be allocated to infrastructure projects (not recurrent costs). For such grants to be effectively allocated to the water sector, it is critical that local government expenditure is monitored by the national government, with incentives in place for the prioritisation of WASH activities.

### By way of conclusion: increasing financing for the WASH sector is critical, but financing alone is only part of what is needed

**Africa's water and sanitation infrastructure deficit certainly requires leveraging financial resources from all potential sources.** This means first and foremost that governments need to increase contributions from domestic funds in addition to seeking funding from external agencies. Governments also need to put in place measures to increase users' contributions as well as the private financial sector and explore tax-based instruments.

**However, while the benefits of investing in water and sanitation are well recognised, WASH services compete with other development priorities, when national budgets are limited.** This complex situation requires the WASH sector to step up efforts to present convincing WASH plans that embed clear objectives, with a detailed and costed strategy to achieve these objectives and which demonstrate consideration for cost-efficient measures. A convincing WASH plan also carefully lays out how it can contribute to achieving the country's national objectives. In developing WASH plans, consultations with finance and budget ministries can help WASH planners refine their financing strategies and present convincing budgets.

**As highlighted throughout this brief, the pathway towards more efficient WASH financing implies that**

**governance reforms are carried out to strengthen services.** Developing governance and tackling water sector operational and financial inefficiencies can contribute not only to reducing the financial burden on the government but also, in the long run, to building the creditworthiness of service providers and gradually enabling them to access commercial finance. This also entails developing capabilities to monitor spending and service levels in WASH in order to strengthen accountability mechanisms at all levels of governance, including at the decentralised level, and further to provide the sector with evidence to assess whether public finance for WASH is effective, efficient and equitable.

## References

- Adokpo Migan S, Trémolet S & Mansour G (2015) *Benin: Innovative public private partnerships for rural water services sustainability*. Washington DC: World Bank.
- Bannister M (2018) DWS – Sustainable Development Goal 6 policy & funding strategies. Presentation at a CABRI event. Available at: <https://www.cabri-sbo.org/uploads/files/Documents/12-Session-5-Presentation-2a-South-Africa.pdf> [accessed 12 September].
- CABRI (2017a) *Decentralisation of water and sanitation services in Kenya*. CABRI Policy Dialogue 'Value for money in the water, sanitation and hygiene sector'. Pretoria: CABRI.
- CABRI (2017b) *Value for money in water, sanitation and hygiene. Position Paper*. Pretoria: CABRI.
- Fonseca C, Franceys R, Batchelor C, McIntyre P, Klutse A, Komives K, Moriarty P, et al. (2011). *Life-cycle costs approach: Costing sustainable services*. IRC.
- Goksu A, Trémolet S, Kolker J & Kingdom B (2017) *Easing the transition to commercial finance*. Washington DC: World Bank.
- Haarhoof K (2018) Lesson sharing on building resilience in dealing with drought and water scarcity. Unpublished presentation at CABRI event in Cape Town.
- Hutton G & Varughese M (2016) *The costs of meeting the 2030 Sustainable Development Goal targets on drinking water, sanitation, and hygiene*. Washington DC: World Bank.
- Ministry of Infrastructure (2016) *National sanitation policy*. Available at: [http://www.mininfra.gov.rw/fileadmin/user\\_upload/new\\_upload/NATIONAL\\_SANITATION\\_POLICY\\_DECEMBER\\_2016.pdf](http://www.mininfra.gov.rw/fileadmin/user_upload/new_upload/NATIONAL_SANITATION_POLICY_DECEMBER_2016.pdf) [accessed 12 September 2018].
- Trémolet S, Mansour G & Muruka G (2015) Microfinance for sanitation: What is needed to move to scale? *Waterlines* 34(3): 227.
- UN-Water/WHO (2014) *Investing in water and sanitation: Increasing access, reducing inequalities. GLAAS 2014 findings – special report for Africa*. Available at: [http://www.who.int/water\\_sanitation\\_health/glaas/glaas2014-africa-region.pdf](http://www.who.int/water_sanitation_health/glaas/glaas2014-africa-region.pdf) [accessed 13 September 2018].
- UN-Water/WHO (2017) *Financing universal water, sanitation and hygiene under the Sustainable Development Goals. Global analysis*

- and assessment of sanitation and drinking-water*. Available at: <http://www.unwater.org/publications/un-water-glaas-2017-financing-universal-water-sanitation-hygiene-sustainable-development-goals/> [accessed 13 September 2018].
- Verster B & Palfreman J (2018) *The sanitation economy*. Available at: [https://www.cabri-sbo.org/uploads/files/Documents/8-Session-3-Master-Class-Bernelle\\_Verster\\_Josh\\_Palfreman.pdf](https://www.cabri-sbo.org/uploads/files/Documents/8-Session-3-Master-Class-Bernelle_Verster_Josh_Palfreman.pdf) [accessed 12 September 2018].
- WaterAid (2016) *Water: At what cost? The state of the world's water 2016*. Briefing. Available at: [https://www.jica.go.jp/activities/issues/water/ku57pq00000naj8j-att/water\\_at\\_what\\_cost\\_wateraid\\_2016.pdf](https://www.jica.go.jp/activities/issues/water/ku57pq00000naj8j-att/water_at_what_cost_wateraid_2016.pdf) [accessed 11 September 2018].
- WHO (2012) Global costs and benefits of drinking-water supply and sanitation interventions to reach the MDG target and universal coverage. Available at: [http://www.who.int/water\\_sanitation\\_health/publications/2012/globalcosts.pdf](http://www.who.int/water_sanitation_health/publications/2012/globalcosts.pdf) [accessed 11 September 2018].
- WHO/UNICEF Joint Monitoring Programme for Water Supply, Sanitation and Hygiene (2017) *Progress on drinking water, sanitation and hygiene: 2017 update and SDG baselines*. Available at: <https://washdata.org/sites/default/files/documents/reports/2018-01/JMP-2017-report-final.pdf> [accessed 11 September 2018].
- WHO/UN-Water (2017) *UN-Water global analysis and assessment of sanitation and drinking-water (GLAAS) 2017 report: Financing universal water, sanitation and hygiene under the Sustainable Development Goals*. Available at: [http://www.who.int/water\\_sanitation\\_health/publications/glaas-report-2017/en/](http://www.who.int/water_sanitation_health/publications/glaas-report-2017/en/) [accessed 3 October 2018].
- World Bank (2016) *Water, sanitation, hygiene and poverty: What are the linkages? Tunisia Briefing Note*. Washington DC: World Bank.

---

## Acknowledgments

The initial draft of the policy brief was written by Goufrane Mansour and Didier Allely-Fermé, from Aguaconsult, with guidance and inputs from Joana Bento, from the CABRI Secretariat. CABRI is grateful for the invaluable contributions to the brief by Lotte Feuerstein (Water Integrity Network), Sitali Muyatwa (Sanitation and Water for All), Clare Battle (WaterAid) and Fiona Gore (World Health Organization).

This publication is funded in part by the Swiss State Secretariat for Economic Affairs. The findings and conclusions do not necessarily reflect their positions or policies.



Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

Embassy of Switzerland  
**Swiss Cooperation Office in South Africa**



CONNECT • SHARE • REFORM

For information on CABRI, or to obtain copies of this publication, please contact:  
CABRI Secretariat, Cnr John Vorster & Nellmapius Drive, Centurion, 0062, South Africa  
Telephone: +27 (0)12 492 0022  
Email: [info@cabri-sbo.org](mailto:info@cabri-sbo.org)  
[www.cabri-sbo.org](http://www.cabri-sbo.org)

---