



# WATER, SANITATION, AND HYGIENE

## **THE AFRICAN WASH MINISTERS' GUIDE TO FINANCE**



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## ACKNOWLEDGEMENTS

The development of this guidance document was coordinated by the AMCOW Secretariat team – Dr. Azzika Tanko Yussif, Dr. Paul Oregoh, Kitchinme Bawa, and Thomas Ephraim Banda.

We wish to express our gratitude to the following individuals for developing, providing technical input, and reviewing this brief: Dr. Catarina Fonseca, Dr. Robert Martin, the AMCOW Technical Advisory Committee, Alusine Sesay (Sierra Leone), Oswald Chanda (African Development Bank), Tom Slaymaker and Ayca Donmez (UNICEF/JMP), Fiona Gore and Sofia Murad (WHO/GLAAS), Joel Kolker (World Bank), Juste Nansi (IRC, Burkina Faso), Laurent David Tiemtore (ONEA, Burkina Faso), Lemessa Mekonta (IRC, Ethiopia), Jane Nabunnya (IRC Uganda), and Nick Dickinson.

We sincerely express our appreciation to the USAID Water for Africa through Leadership and Institutional Support (WALIS) program for the technical and financial support for the development of this document.

## ABOUT THE AUTHORS

The African Ministers' Council on Water (AMCOW) is a Pan-African Intergovernmental Organization, formed in 2002 in Abuja, Nigeria to promote cooperation, security, social and economic development, and poverty eradication among its Member States, by ensuring effective use and sustainable management of the continents' water resources, and provision of water supply, sanitation, and hygiene services. AMCOW serves as the delivery mechanism on Water and Sanitation for the Specialized Technical Committee on Agriculture, Rural Development, Blue Economy, and Sustainable Environment of the African Union. AMCOW leads the political mobilization of stakeholders and the African ministers for water, sanitation, and hygiene for all the 55 African Member States to plan, advocate, and influence for political prioritization of WASH services delivery across the African continent.

This finance guide was funded by the USAID Water for Africa through Leadership and Institutional Support (WALIS) program. WALIS is supported through the USAID Bureau for Africa's Office of Sustainable Development that seeks to achieve transformative improvements in access to clean water and sanitation through development and monitoring of sound sector data, engaging in dissemination of critical information, strengthening country systems that inform sector policy, and increasing capacity to improve collection and use of sector knowledge.

The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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Page 3: AMCOW President and Minister of Agriculture, Water and Land Reform, Republic of Namibia

# MESSAGE FROM THE PRESIDENT OF AMCOW

The AMCOW Strategy 2018-2030 prioritises four strategic pillars and four cross-cutting priorities including the mobilization of adequate and sustainable financing for water and sanitation across the African continent. A key action under this priority is to lead advocacy efforts in closing the financing gap for investments in water and sanitation infrastructure.

The UN SDG global accelerator framework recognises financing as a critical pillar toward achieving the SDGs. Yet a huge funding gap still exists for water, sanitation, and hygiene services delivery.



The Africa Water Vision (2015-2025) requires an investment of USD 64 billion per year, yet current investment for the water sector in Africa stands at USD 10.5 billion per year indicating a funding gap of over 80%. African Leaders need to make strong commitments to work toward achieving the 2030 Sustainable Development Goals target of universal access to water and sanitation. While it is clear that the situation of each member state is unique, the finance gap problem is common to all countries. What is also common to all countries is the need to significantly increase the rate of progress in access to water, sanitation, and hygiene.

In Africa, investment in water and sanitation not only improves livelihoods and well-being but is also estimated to yield an economic return of about USD 28.4 billion a year, or nearly 5% of gross domestic product (GDP) of the continent. A dollar invested yields USD 5.50 in returns for sanitation and USD 2.00 for improved drinking water supply. Furthermore, poor countries with improved water and sanitation services enjoyed annual average growth of 3.7% of GDP, while other countries without improved access had an average annual per capita growth of 0.1% (SIWI, 2004). The economic value of investing in sanitation and hygiene is high, but the cost of inaction to improve access for all is much greater.

WASH sector decision makers must take the lead in building the case for using existing funds more efficiently on one hand, and on the other increasing the amount of funds to the sector. They need to be able to be prime advocates for the sector and discuss these critical financial matters with ministers of finance, finance institutions, and other key players. In addition to financing, this also means prioritising the WASH sector, strengthening sector policies and legislative frameworks, and raising the profile of the sector.

It is therefore of the utmost importance to understand relevant financial concepts and issues which are frequently raised by colleagues in ministries of finance, the private sector, and development partners. This guide provides an overview of the most important concepts and how to kick start these discussions. It is complementary to AMCOW's recently published brief "[The African Ministers' WASH Finance Brief](#)", which provides more evidence to support the mobilisation of investment for the WASH sector.

**Hon. Carl Hermann Gustav Schlettwein,  
AMCOW President and Minister of Agriculture,  
Water and Land Reform  
Republic of Namibia**

# ABOUT THIS GUIDE

This guide provides an overview for African WASH ministers and their teams of essential finance-related concepts required to engage optimally with finance ministries, parliamentarians, financial institutions, and other high-level decision makers. It is not exhaustive but does provide numerous links to additional resources and references.

The main goal of this guide is to support strategies and approaches for African WASH ministers to raise additional finance for the sector; to make effective use of the limited available financial resources, and to improve the overall financial sustainability of WASH financing.

It provides available evidence and data from diverse African countries that can be used to influence the mobilisation of much needed domestic financial resources.

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“Even with reforms, given the large financing gaps, especially in the water and sanitation sector, increases in both public sector and private sector funding will be required for African countries to continue to improve economic and social performance.”

– ICA, 2018

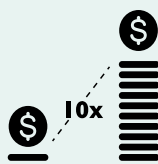
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## KEY TAKE AWAYS:



### **Understanding the financial issues that are relevant for finance ministers and other high-level decision makers**

is a first step in being able to advocate for higher levels of funding and financing.



In 2016, it was estimated that in order to reach SDG 6, there would need to be contributions on average of 5% of GDP in Sub-Saharan Africa. **Current funding is less than 10% of what is needed.**



While funding and financing needs to increase, and a lack of money alone is not the root cause of the water and sanitation sector's problems, **political decisions and policies made by WASH ministers can have a considerable positive impact on the water and sanitation sector, as demonstrated by the insights provided in this guide.**



No countries in Africa are currently on track to achieve universal access by 2030. **Most countries are progressing too slowly, and in some countries coverage has decreased.**



At current rates of progress, **sub-Saharan Africa requires the greatest acceleration**, without which it will reach only 37% coverage for safely managed drinking water, leaving behind 63% of the 2.2 billion people in Africa by 2030 (UNICEF/WHO, 2021).

# WASH FINANCE: PROGRESS AND CHALLENGES



## PROGRESS ON DRINKING WATER, SANITATION AND HYGIENE SERVICES

From 2015 to 2020, African countries overall increased access to at least basic drinking water and sanitation services from 60 to 69 percent and from 40 to 42 percent respectively. Open defecation declined from 19 to 16 percent.

Achieving universal access to even a basic level of service by 2030 will require a dramatic acceleration in current rates of progress. For coverage of basic drinking water services, they will need to increase by a factor of four and for basic sanitation services they will need to be 14 times faster.

African countries have even further to go to meet the ambition of the [SDG global targets](#) for universal access to safely managed drinking water, safely managed sanitation, and basic hygiene services by 2030.

Between 2015 and 2020, coverage of safely managed drinking water increased steadily from 35 to 39 percent but coverage of safely managed sanitation only increased slightly from 26 to 27 percent, and access to basic hygiene services remained unchanged at just 37 percent. No countries are on track to achieve the SDG targets and in several countries, coverage has actually decreased over the last 20 years (WHO/UNICEF 2021).

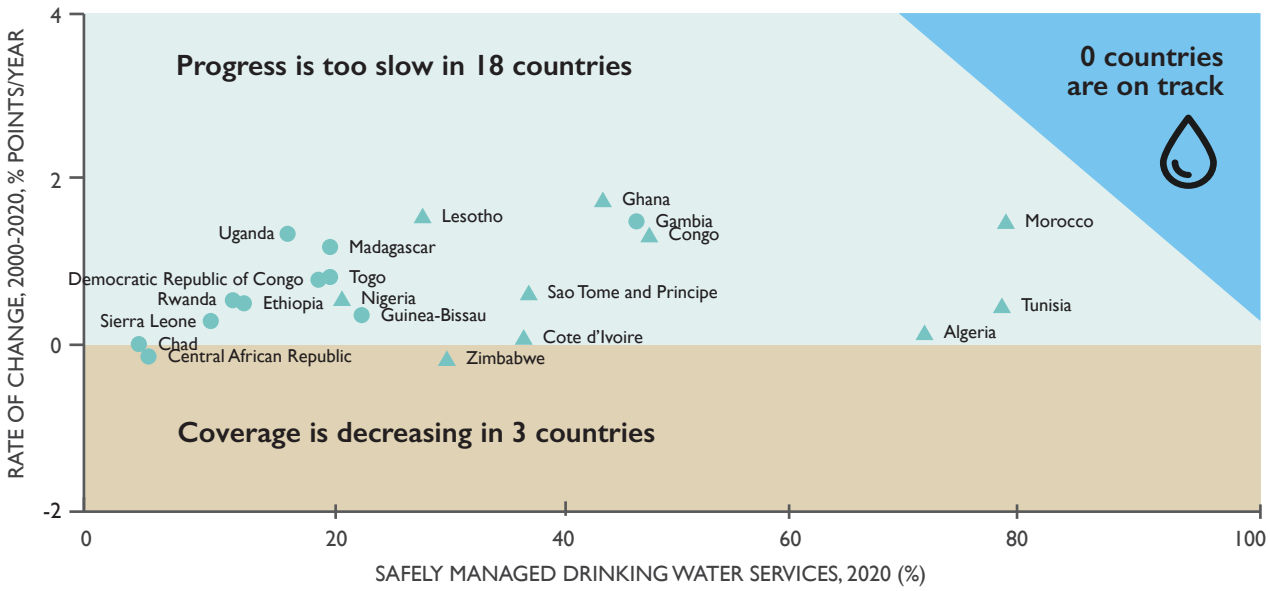
For Africa to achieve the SDG global targets by 2030, rates of progress will need to grow by at least 10 times for drinking water, 18 times for sanitation, and 6 times for hygiene.

Coverage of WASH services 2015-2020 (%) and acceleration required to reach universal coverage by 2030 in Africa

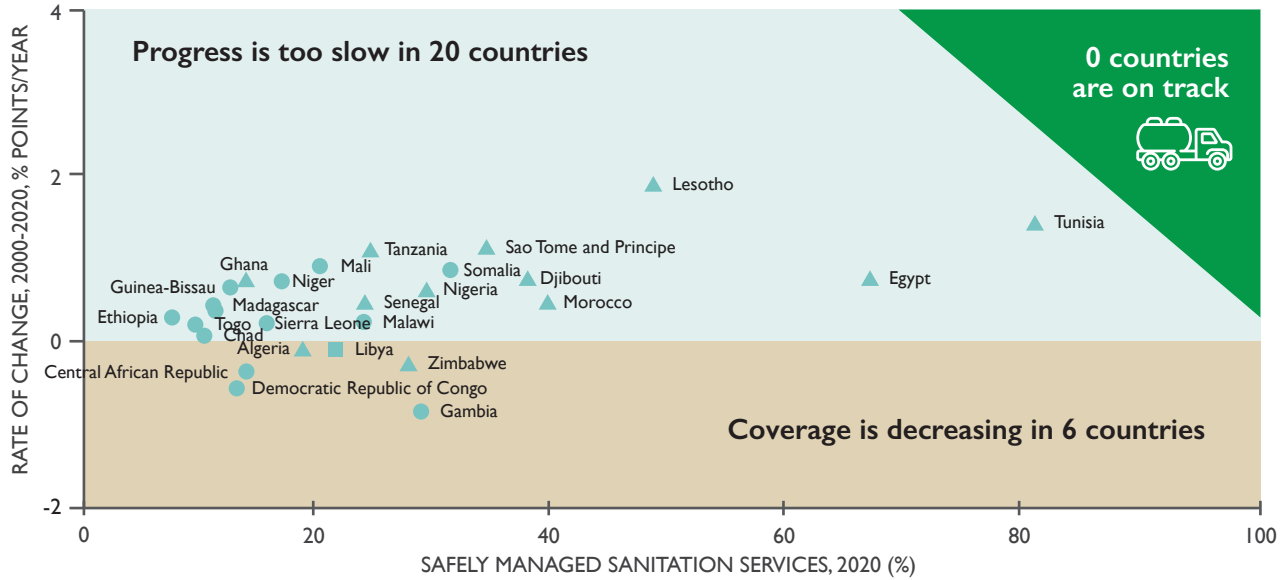


Source: WHO/UNICEF JMP 2021, based on the Economic Commission for Africa (54 countries)

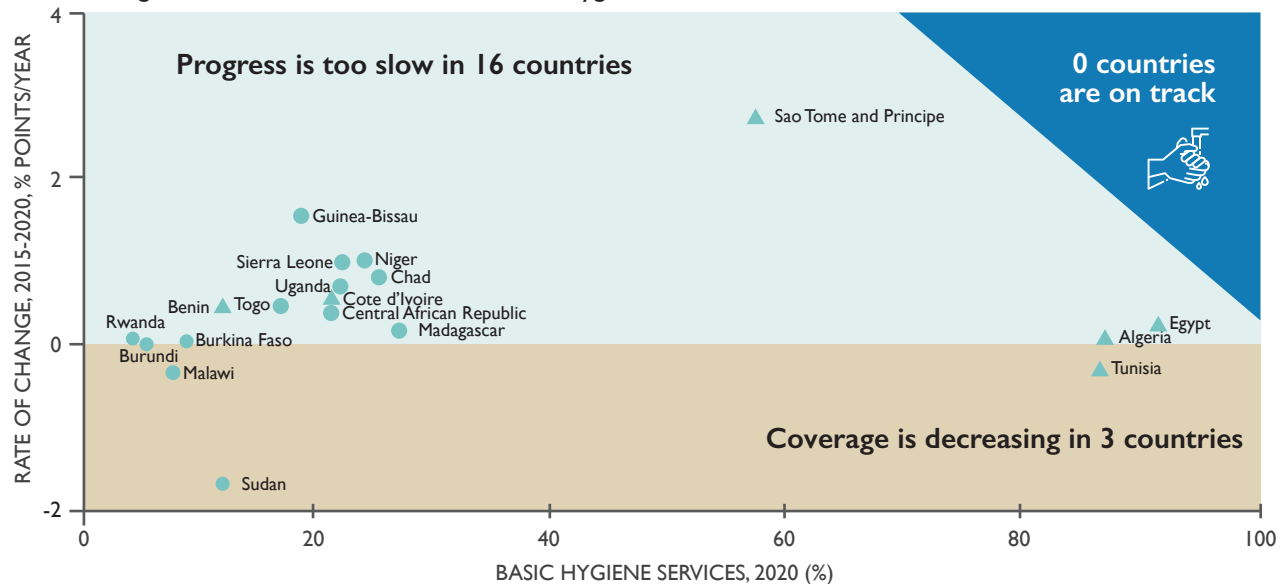
Progress towards universal access to safely managed drinking water 2000-2020



Progress towards universal access to safely managed sanitation 2000-2020



Progress towards universal access to basic hygiene 2015-2020



■ Low income ▲ Lower-middle-income ● Upper-middle-income ◆ High-income

Source: WHO/ UNICEF 2021, based on Economic Commission for Africa (54 countries)

## THE WASH SECTOR FINANCE GAP IN AFRICA

Overall, current funding for the WASH sector in Africa is less than 20% of the amount needed to achieve the SDG targets, with sanitation showing the widest gap. Recent estimates for the annual investment to reach the sanitation target give the following breakdown:



**\$36 billion**

for basic sanitation, of which **Sub-Saharan Africa** accounts for about 50% of total investment needs.

**\$69 billion**

for safely managed sanitation, of which **Sub-Saharan African** accounts for 39% of total investment needs.

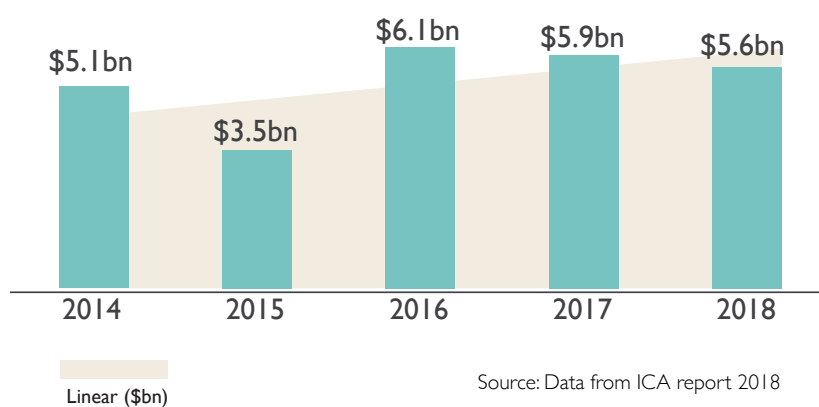
These investments could constitute 1% and 2.4% of Gross Regional Product for basic and safely managed sanitation respectively but will also have a positive impact on GDP if universal access is achieved (see more details in AMCOW, 2021a).

## EXISTING SOURCES OF FINANCE

Government expenditure for WASH varies widely. As a percentage of GDP, it ranged from 0.002% to 1.82% in the 2019 GLAAS data, with an average of 0.4%.

According to the [Infrastructure Consortium for Africa \(ICA\) report](#), **African governments** were the largest source of infrastructure funding and financing. **Between 2014 and 2018** national government budget allocations to the water sector have fluctuated. In 2018, budgets totalled USD 5.6 billion, decreasing from USD 5.9 billion in 2017. At the country level, South Africa allocated the largest amount to water and sanitation, USD 1.3 billion, followed by Angola with USD 1 billion.

*African governments investments in water and sanitation infrastructure 2014-2018*



The investments of **private financing** in water in 2018 were USD 256 million (2% of the overall Africa private financing).

Despite multiple global commitments since 2009 that sought to increase the prioritisation of WASH, **Official Development Assistance (ODA)** spent on WASH has stagnated in the past ten years, averaging USD 1.8 billion per year for the African continent (OECD statistics). Most ODA is in the form of concessional loans to lower income countries. The creditor base for Africa's debt continues to shift away from traditional multilateral and bilateral Paris Club sources toward commercial creditors and non-Paris Club official lenders (AfDB, 2021).

There is no comprehensive data available for **household expenditure**. However, [data from 35 countries](#) show those contributions can represent 66% of overall WASH spending through tariffs and household investments in infrastructure (UN-GLASS, 2019).

Given current economic hardships and dwindling ODA flows, sustainable financing of the sector can be considered fragile at best.

## PROGRESS ON NGOR DECLARATION COMMITMENTS

The Ngor Declaration states that African ministers commit to “establish and track sanitation and hygiene budget lines that consistently increase annually to reach a minimum of 0.5% GDP by 2020.” In 2020, 38 countries reported on their progress against the Ngor Commitments.

On average there was little change in countries making strong or good progress on Commitment 3 since the baseline, but the number of countries making poor progress has decreased.

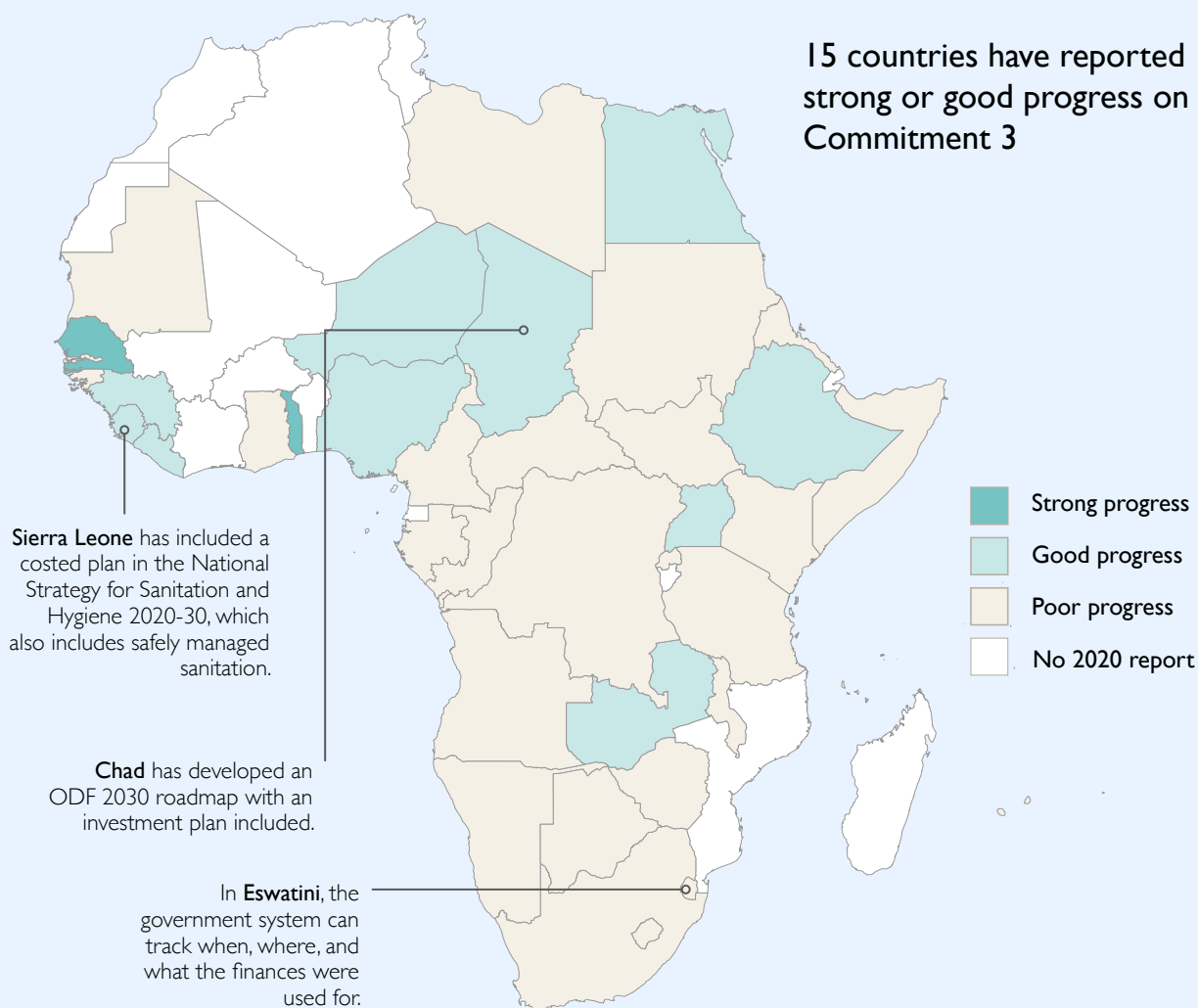
Since 2018, seven countries have developed investment plans for universal basic sanitation, and six countries developed investment plans for safely managed sanitation. **However approximately one in three countries in the region have no investment plan for basic sanitation and hygiene.** Being able to track budgets is a pre-requisite for monitoring progress on country targets.

According to AMCOW’s Water and Sanitation Sector Monitoring and Reporting System (WASSMO), in 2016 five countries allocated and disbursed more than 0.5% GDP to sanitation and hygiene. Of these, three were in North Africa.



### ESTABLISH AND TRACK SANITATION AND HYGIENE BUDGET LINES THAT CONSISTENTLY INCREASE ANNUALLY TO REACH A MINIMUM OF 0.5% GDP

15 countries have reported strong or good progress on Commitment 3



Source: AMCOW. Consolidated AfricaSan Ngor Commitment Progress Report 2020 (in press)





# KEY CONCEPTS IN WASH FINANCE

In discussing finance for WASH services, it is useful to keep in mind a few key concepts, some of which have not traditionally been used in the WASH sector:

## THE DIFFERENCE BETWEEN “FUNDING” AND “FINANCING”.

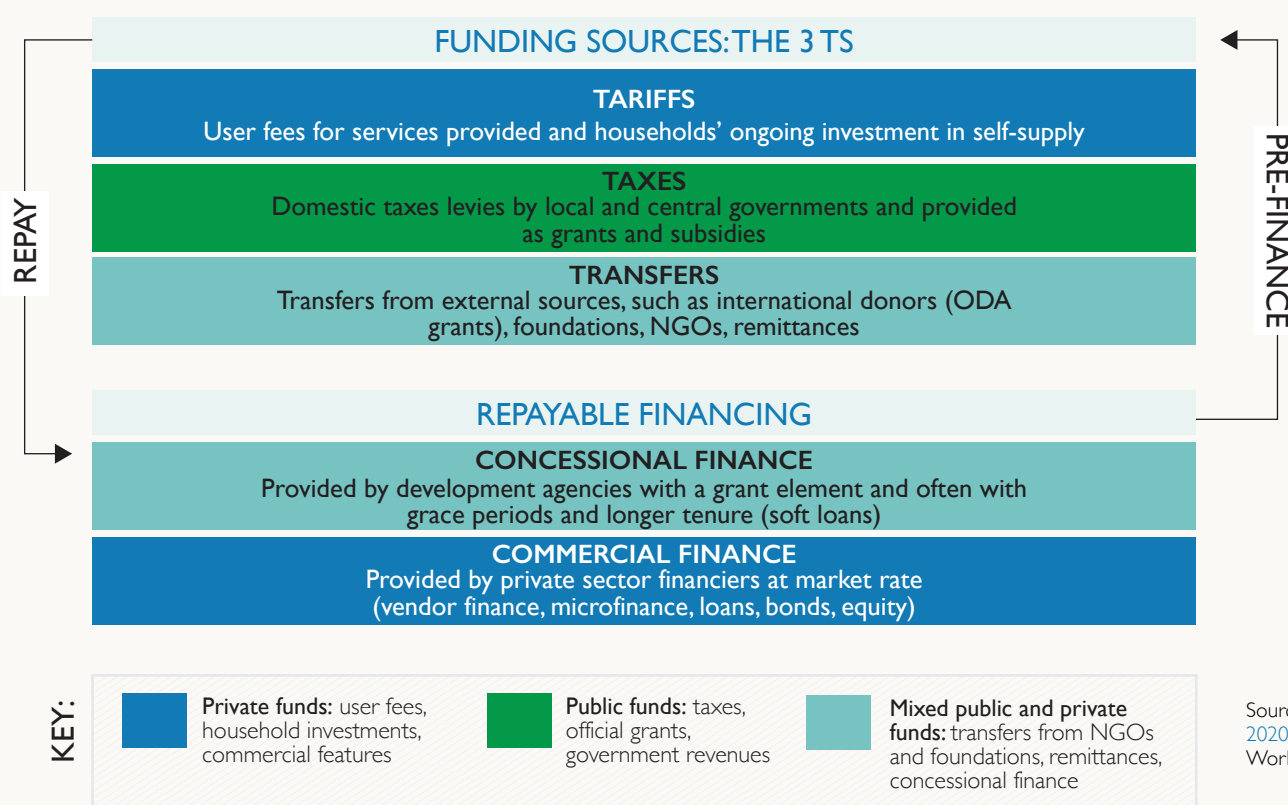
For most people, these words have the same meaning, but for finance experts they mean very different things. Misusing them leads to misunderstandings.

- » **Funding** is an amount of money provided by an organisation or government and comes from three main sources, commonly referred to as the ‘3Ts’ (OECD, 2009), tariffs from customers (including user contributions and household investments); taxes from domestic taxpayers, and transfers from national governments or international donors.
- » **Financing** or repayable finance refers to borrowed money, including loans and bonds which must be repaid with interest, as well as equity shares that must be paid out once an investor exits.

## THE DIFFERENCE BETWEEN CONCESSIONAL FINANCE AND COMMERCIAL FINANCE

- » **Concessional finance** are loans provided by development agencies or public development banks with a grant-like element that does not need to be paid back. They have a longer period for paying back the loan, below market interest rates, and usually include a grace period of several years before the loan needs to start being paid back.
- » **Commercial finance** (i.e. vendor finance, microfinance, loans, bonds, equity) is provided by private sector financiers, including banks, at market interest rates. They have short pay back periods, no grant elements, and no grace periods.

## Sources of funding and financing: public and private



## FISCAL SPACE IS NOT ONLY ABOUT LIMITS TO TAKE ON DEBT

» **Fiscal space** has been defined as “room in a government’s budget that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy” (Heller, 2005). Governments, and ministers of finance in particular, need to make sure that any increase in expenditure will be reflected in productive gains for the economy. The WASH sector is infrastructure intensive and requires high expenditure in the short term but with huge benefits in the long term. When discussing budget increases it is important to show how future revenues and efficiency in spending will offset short term expenditure (see more details in [AMCOW, 2021](#)).

## CREDITWORTHY INSTITUTIONS AND UTILITIES CAN ACCESS CONCESSIONAL AND COMMERCIAL FINANCE WITHOUT BEING A DRAIN ON NATIONAL BUDGETS

- » **Being creditworthy** means having the required revenue to cover the costs of operations and debt service (a ratio of at least 1.5 is required for most financing); a clear legal mandate and scope for service provision; a solid financial track record with a positive net cash flow over several years; business-minded leadership; operational efficiency; strong performance; good asset management and business planning; a track record of borrowing and repaying debts; and an asset base as collateral.
- » **Sovereign credit ratings** are also important. The higher they are, the cheaper it is to access concessional and market finance that can be directed to the WASH sector; but many countries have seen their credit ratings downgraded in recent years.

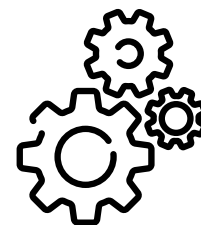


## ASSET MANAGEMENT IS CRITICAL FOR CONFIDENCE IN THE WASH SECTOR.

- » **Assets** mean capital assets such as pumps, pipes, water treatment plants, and equipment.
- » **Asset management** in the WASH sector refers to the processes and decisions that ensure services are maintained at agreed levels and that the value of the assets is maintained. It involves ensuring the maximum functional life and optimum performance at the lowest possible cost of the physical components of water systems. Failure to maintain assets can lead to decreasing service quality and increases in overall capital costs for replacement of at least 60 percent (ICA, 2018), undermining confidence in the sector and its institutions.



# POTENTIAL FINANCE MECHANISMS AND APPROACHES



The SWA handbook for Finance Ministers “How to make public investments work” outlines four critical intervention areas with the potential to mobilise more resources and provides many case studies with examples on how these approaches have worked in different countries.

**Maximize the value of existing public funding** by incentivising sector performance, improving subsidy targeting, and promoting better sector planning and management.

### Pros

- There are many examples across the Continent on sector performance processes – not all driven by regulators
- Finance strategies for the sector and costed finance plans are not difficult to develop (see next section)
- Identifying reasons for low absorption capacity of finance in the sector is straightforward (see next section)
- Civil society can support setting up accountability mechanisms

### Cons

- Requires high level of political commitment within the sector and leadership in the implementation of sector performance processes
- Unpacking who is getting what type of subsidies requires specialized technical expertise
- Subsidy targeting requires coordination with other line ministries (agriculture, industry)
- Issues related with weaknesses in public financial management systems might be outside of the scope of the water sector to influence.

Higher potential for resource mobilisation

Lower potential for resource mobilisation

Maximise value from existing public funding

Mobilise more funding

Less reform required

**Mobilise more funding** by setting up adequate cost recovery policies, reforming tariffs, introducing earmarked taxes, and establishing an array of options for cross-subsidisation.

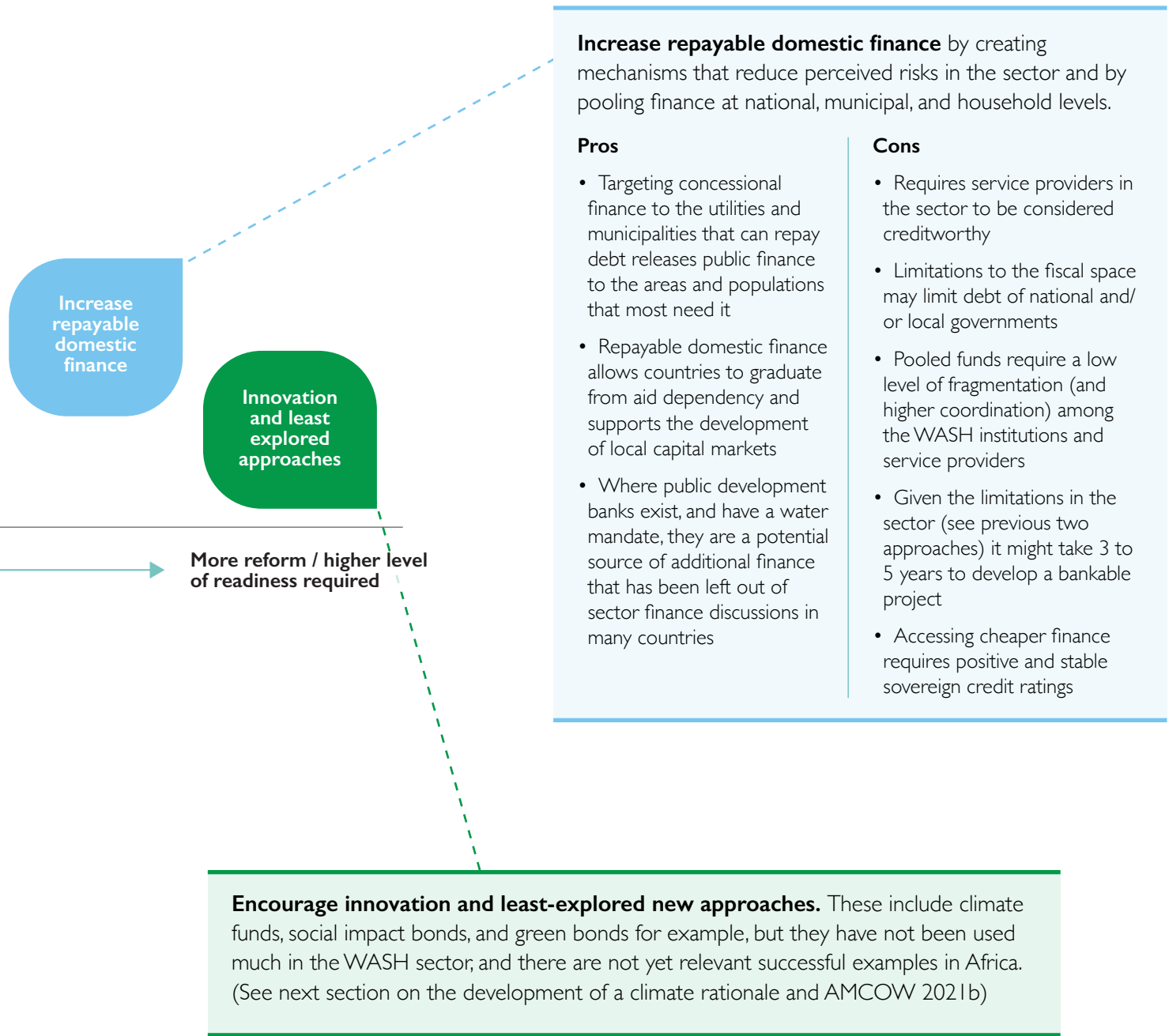
### Pros

- Provides the highest levels of funding from all possible finance mechanisms available
- Increases creditworthiness of service providers and unlocks concessional finance to the sector – has a snowball effect on attracting additional finance overall
- Understanding levels of funding, tariffs, budget processes and taxation is straightforward

### Cons

- Requires high level of political commitment and leadership beyond the sector to introduce taxes or tariff reforms
- Increase in taxes and tariffs require improvements in service delivery first (upfront investment needed) and considerations on affordability
- Cross subsidisation requires a low level of fragmentation (and higher coordination) among the WASH institutions, service providers, and other sectors
- Mobilising more funding without improving sector performance and accountability will not lead to the intended outcomes

The first two, maximising value from existing public funding and mobilising more funding, typically have greater potential to increase resources than the second two areas, repayable domestic finance and financial innovation. The latter two are also highly dependent on the ability of the sector to demonstrate that it makes good use of existing funding.



# BUILDING THE CASE FOR INCREASING WASH FINANCE



Ministers responsible for WASH can draw on experience gained throughout the continent in negotiating sector funding with finance ministers and other relevant decision makers such as parliamentarians, heads of state, and financial institutions. Some key questions and recommendations are summarised here.

## Why is finance available but not coming to the sector?

*Understand and gather evidence on existing barriers to raising additional finance.*



Before requesting more public funds, it is important to understand the factors preventing the sector from receiving a greater allocation. Some problems often mentioned by finance officials include:

- Low absorption capacity, or rate of spending of existing funds in the sector
- Lack of long and medium-term plans to achieve sector goals set by the government
- Weak understanding of budget processes and how to influence them
- Lack of revenues generated by the sector
- Perception that service providers are technically and financially inefficient
- The governance, policy, institutional, and regulatory environment lacks transparency, structure, and integrity
- Little evidence of progress, the economic value, and potential of WASH for job creation and economic development.

In short, the WASH sector is often seen as “needy” and a drain on public resources. It is therefore important to first acknowledge problematic areas and have a plan of action to address them before requesting additional funds.

*For more resources on identifying bottlenecks see [Mobilising finance for WASH: getting the foundations right](#), available in three languages.*



PHOTO: P. Titmuss/Alamy

# Why is the WASH sector not spending its allocated yearly budget?

Explore reasons for low absorption capacity.



If the sector is spending only 70 or 80 percent of the allocated yearly budgets, it is difficult to convince financial decision makers to invest more. The first step is to understand the root causes of low absorption capacity.

Existing Public Financial Management systems are a common reason, with disbursements from central governments sometimes reaching service providers and municipalities eight months after the start of the fiscal year. Accelerating the flow of funds requires collaboration with the Ministry of Finance.

Another common reason is that budgets are often only allocated to salaries of decentralised technical teams or service providers. This means that there are entire teams at district level without any funds for doing basic yet essential maintenance or improving the quality or quantity of water supplied. The staff is there, they have the skills, but the way budgets are allocated do not allow them to do their work, leading to low absorption capacity.

## WASH financial data availability by funding type

Using the [TrackFin methodology \(WHO, 2021\)](#), countries have realized that the financial data required to develop WASH accounts are generally available, although often highly fragmented and challenging to consolidate. Countries that have implemented TrackFin are able to identify data gaps and incrementally improve monitoring systems to improve the quality and availability of data.

Country Cycle + year	FUNDING TYPE						
	Tariffs (users)	User expenditure on self-supply	Central government funding	Sub-national government funding	Bilateral and multilateral donor grants	Donations and grants (NGOs and other)	Repayable financing (loans)
<b>Burkina Faso</b> Cycle 1 – 2017	Estimated data	Data available	Data available	Data available	Estimated data	Estimated data	Data available
<b>Ghana</b> Cycle 2 – 2016	Estimated data	Data partially available and estimated	Data available	Estimated data	Estimated data	Estimated data	Estimated data
<b>Kenya</b> Cycle 2 – 2016	Data available	No data	Data available	Estimated data	Estimated data	Estimated data	No data
<b>Madagascar</b> Cycle 1 – 2018	Estimated data	Data partially available and estimated	Data available	Estimated data	Data available	Estimated data	Data available
<b>Mali</b> Cycle 3 – 2020	Estimated data	Data partially available and estimated	Data available	Data available	Data available	Estimated data	Data available
<b>Morocco</b> Cycle 1 – 2014	Data available	Data partially available and estimated	Data available	Data available	Data available	No data	Data available
<b>Senegal</b> Cycle 1 – 2018	Estimated data	Data partially available and estimated	Data available	Data available	Data available	Estimated data	Data available
<b>Tunisia</b> Cycle 1 – 2017	Data available	Data partially available and estimated	Data available	No data	Estimated data	Estimated data	Data available
<b>Uganda</b> Cycle 1 – 2018	Estimated data	No data	Estimated data	Estimated data	Estimated data	Estimated data	No data

Data available
  Data partially available and estimated
  Estimated data
  No data

Note: This chart provides an overview of aggregated data availability and does not show differences in urban and rural availability or by WASH area.

Source: WHO 2021

## How much is needed to achieve the country's goals?

*Inspire with a vision for the sector and have a plan to achieve it.*



Achieving SDG 6 or other goals for the WASH sector needs a common vision, but a vision without a finance strategy will remain a dream. A WASH sector finance strategy is a time-bound plan for the sustainable financing of capital investments, operations, and maintenance costs. It is essential to yearly budget discussions because it identifies:

- How much finance is needed to create basic access to safely managed WASH services for all (including capital expenditure development plans, financial sustainability plans, staffing and capacity training, emergency planning, resources for operation and maintenance, rehabilitation, etc.).
- How much income is available to the sector from taxes, transfers, and tariffs.
- The finance gap and how to cover costs with the best mix of resources.

The lack of a unified plan for the WASH sector indicates the lack of a strategy. This can prevent access to additional public and private finance, and it makes it difficult for donors and citizens to hold responsible parties socially and financially accountable for underachievement.

An important aspect to consider is that funding “project by project” is not appealing. It reinforces the idea that the water sector is a drain on public finances, simply investing in assets and not looking into how they will be maintained. It also fails to show a longer-term vision or how the sector contributes and coordinates with other critical components of the economy such as health, education, environment, agriculture, and industry.

For more information on the WHO tracking WASH accounts, visit the [WASH accounts website](#). The SWA has also made available the [WASH SDG costing tool](#).



**OUT OF 43  
COUNTRIES  
IN AFRICA  
RESPONDING  
TO THE  
2018/2019  
GLAAS SURVEY:**

**Only 10  
countries** have  
formally approved  
policies for drinking-  
water, sanitation,  
and hygiene for both  
urban and rural areas

**Only 15  
countries** reported  
the existence of  
approved and at least  
partially implemented  
drinking-water,  
sanitation, and hygiene  
implementation plans  
for both urban and  
rural areas

**Only 24 countries**  
have financing plans  
for drinking-water,  
sanitation, and hygiene  
in urban and rural areas,  
but **half of the  
countries** report  
that financing plans  
are insufficiently  
implemented

Source: GLAAS, 2019



## How to influence budget processes?

*Timing is important: understand in detail the budget cycle.*

The budget cycle is set by the finance minister and includes specific consultation and decision-making moments. The WASH sector can prepare and influence some of the critical decisions, but it needs to have the evidence to support its position. With good data, involving the right stakeholders, and attending the right meetings, changes can be seen within one budget cycle.



## HOW TO ADDRESS THE ISSUE OF TARIFFS? THE NEED FOR TARIFF REFORMS.

The process of setting tariffs commonly faces a tension between many different policy objectives, including the financial sustainability of service providers, access for all, including vulnerable and poor social groups, and protection of the environment and biodiversity.

Revenues from tariffs are the most certain and largest source of funds for WASH service providers. Yet, in many African countries, tariffs for urban centres are either too low to meet any of these objectives, or the structure of tariffs is such that most customers fall into the lowest tier, even when they can afford to pay much more. Furthermore, even with well-established tariffs, collection rates are often too low, and payments are frequently not enforced for public institutions.

The short-term consequence is that tariff revenues are not sufficient to cover basic operational costs, the replacement of infrastructure, and payment of interest on loans. More serious long-term consequences are a serious deterioration in existing services, inability to expand services to unserved communities, reluctance of lenders to provide loans, and perpetuation of dependency on aid and subsidies.

The finance gap created by low tariffs requires government subsidies for survival of utilities, resulting in a perverse situation where the State is effectively subsidising the richer populations and industries, and contributing to further deterioration of assets and services.

Tariffs need to be questioned and reviewed over time. Well-designed tariff setting processes give a voice to all water users, including those who do not have access to the service. It is critical that finance and WASH sector ministers discuss tariff reforms, in particular tariff structures taking into consideration affordability for the poorest, and opportunities for cross-subsidies between cities and between the WASH sub-sectors of water supply and sanitation services.



## How to improve efficiency of the sector?

*Optimise the use of existing funds.*



When discussing increases in budgets it is important to emphasise how funds will be used more efficiently as a result. The quick wins to improve efficiency are mostly related to reducing costs and increasing revenue by decreasing non-revenue water (NRW).

Cost reductions can be achieved by finding the right mix in the allocation of resources between capital expenditure and recurrent costs and by decreasing the costs of capital maintenance through preventive maintenance. Cost reductions can for example be achieved by efficiency gains, achieving the same level of service at a lower cost (e.g. through more streamlined procurement processes), or by working with neighbouring municipal utilities to access more shared resources.

NRW is the difference between the amount of water put into the distribution system and the amount of water billed to consumers (C. van den Berg, 2015 and Kingdom et.al, 2006). It is estimated that NRW is around 40–50 percent of the water produced (Kingdom et.al, 2006). High levels of NRW reflect huge volumes of water being lost through leaks, not being invoiced to customers, or both. It seriously affects the financial viability of water utilities through lost revenues and increased operational costs.

Although it is not feasible to eliminate all NRW in a water utility, reducing it by half can already increase efficiencies enormously. Decreasing NRW can reduce recurrent costs and increase revenue to help close the finance gap. Reducing NRW is not just a technical issue - it requires strengthening the WASH system as water utilities often operate under a weak governance and financial framework, with utility managers having to face multiple political and economic constraints.

*For more insights on lessons learnt to improve efficiency of water utilities in Africa see [this World Bank report](#) (van den Berg and Danilenko, 2017). For improving efficiencies in sanitation see [AMCOW 2019](#).*

## What is the contribution of the WASH sector to mitigation and adaptation actions in response to climate change?

*Develop a climate resilient WASH finance narrative in the context of nationally determined contributions under the [2015 Paris Agreement](#).*



Nationally determined contributions (NDCs) embody efforts by each country to reduce national emissions and adapt to the impacts of climate change. In many countries, the WASH sector is not yet explicitly mentioned in the NDCs which prevents the development of a climate-related narrative or framework to support additional finance for the sector.

A WASH climate resilient framework ensures that WASH infrastructure and services are sustainable and resilient to climate related risks, such as flooding. It is also required for access to climate funds. Many governments and Public Development Banks have access to climate funds, but evidence suggests that water-related investments represent a small share of climate-friendly investments.

WASH ministers can create evidence and narratives on the nexus between the water sector and climate change and lay out the rationale for pursuing climate finance to attract additional finance to the sector in collaboration with ministers of finance and ministers of environment. The WASH sector can show how most water projects fall under adaptation projects and how sanitation ticks all the boxes on climate mitigation (e.g., energy efficiency, limitation of greenhouse gas emissions) and adaptation (e.g., water supply renewal, reduction of impact of floods).

*For more insights see [this report on the climate finance for water](#) (ODI/WaterAid, 2020).*

## What is the availability of domestic concessional finance?

*Assess opportunities through National Public Development Banks.*



National Public Development Banks are key players, both historically and currently, in financing water in the countries where they operate. In Africa, there are a number of countries that have national PDBs that finance water-related investments, but these have been very limited to date.

National PDBs that have an active role in water have a clear mandate to finance the water sector, the financial means to implement this mandate, and in-house water sector knowledge and expertise. In Africa, there are 94 Public Development Banks [listed](#) with overall assets of USD 118.5 billion (AFD, 2020). The majority are located in Eastern Africa (30) and Western Africa (26), but in terms of the value of assets (millions of dollars) the largest share goes to Northern Africa.

Loans are the main financial instruments deployed by PDBs in the water sector. Through loans, national and regional PDBs finance investments such as large expansions of water distribution and sewerage networks, potabilization and desalination plants, and sewage treatment plants. They also finance mid-sized towns and utilities which are more creditworthy.

In general, the difference between financing from PDBs and domestic private banks has to do with the conditions offered and the non-financial instruments made available by national PDBs. Technical assistance to local governments and utilities provides added value, as do the conditions for loan repayment.

One of the aspects most relevant to the water sector is that PDBs are instrumental to implement multi-sector projects that are cross-subsidising in nature. This allows for the mutualisation of risk between lower (larger utilities) and higher credit risk borrowers (smaller municipalities) and lower and higher risk sectors too, enabling smaller borrowers to access more favourable conditions.

There are few PDBs in Africa with a mandate to finance the water sector. In many countries, utilities and municipalities historically rely on central and/or local government funding for investments, which may inhibit demand for regional or national PDB financing for the water sector.

The WASH sector can discuss with finance ministers and national PDBs how they can play a larger role in financing the WASH sector given some of the limitations and foundational issues discussed above.

*For more information on the role of Public Development Banks in the sector see the AFD, 2021 report.*

### EXAMPLES FROM PDBS OPERATING IN THE WATER SECTOR INCLUDE:

#### ***Caisse de Dépôts et de Gestion Capital in Morocco***

The bank is committed to finance climate change mitigation and adaptation projects, in line with Morocco's National Determined Contributions and is supported in this objective by the Green Climate Fund (GCF) accreditation. The bank supported the preparation and financing of a desalination project in Agadir.

#### **The Development Bank of Southern Africa (DBSA)**

DBSA seeks to play a pivotal role in delivering developmental infrastructure in South Africa and the rest of the African continent. The Bank's focus areas are the energy, water, transport, and telecommunications sectors. DBSA clients include municipalities, state-owned enterprises, the private sector, and PPPs. It can also directly collaborate with national and regional governments in project management support.

# ADDRESSING THE FINANCIAL IMPACT OF COVID-19 ON THE WASH SECTOR



COVID-19 has had a negative financial impact on WASH service providers mainly by a decrease in revenues from providing free water for a specific amount of time and, because of the lockdown, from a drop in water consumption. This has put [many utilities under strain](#) in countries like DRC, Ghana, Kenya, and Togo. Many utilities have also provided emergency water through tankers, kiosks, and hand washing stations and in some countries (e.g. [Côte d'Ivoire](#), [Gambia](#)) there has been a drop in budgetary allocations to WASH.

One year later, here are some examples of how African governments and utilities have raised funds to cover the reduction in revenues and the increasing debts of service providers. However, some of the aspects mentioned in this brief such as creditworthiness, efficiency, and asset management, among others, will need to be addressed to ensure financial sustainability of the additional funds released to the sector.

In **Ghana**, water was provided free of charge for three months in 2020. A one percent COVID-19 [Health Recovery Levy \(CHRL\)](#) was implemented in May 2021 by an Act of Parliament. The levy is imposed on goods and services to help reduce the effects of the pandemic on economic activities which were estimated at [GHC 19 billion \(USD 3 billion\)](#). Currently, there is not an expiration date for the levy.

In **Uganda**, the Ministry of Water and Environment issued an order prohibiting disconnections and encouraging service provision for each citizen and business. The Uganda National Water and Sewerage Corporation (NWSC) began supplying nearly 200,000 people in water stressed areas using emergency water tanks among many other actions to guarantee water services. As a result of the quarantine, total consumption saw a [41 percent decrease and billed revenue dropped 50%](#). The financial recovery programme includes restructuring the payment obligations to the electricity company, suppliers of chemicals and disposables, and international finance institutions. Through the [Uganda COVID Economic Crisis and Recovery Development Policy Financing](#), USD 300 million of concessional finance was made available to cover the accumulated costs of water providers.

In **Madagascar**, besides providing water for free for two months, the government focused on [identifying the most vulnerable populations](#) through collaboration between the ministry in charge of social protection, the ministry of water and sanitation, and civil society organisations. These groups have been receiving direct subsidies (grants), and [kiosks have been set up with funding provided by the government and development partners](#). There have been similar types of activities in [Kenya](#) and [Malawi](#).

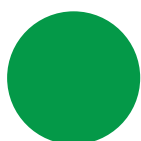
In **Burkina Faso**, the government, as part of social measures related to COVID-19, has decided to provide free water on the social portion of the ONEA (water utility) billing. This free access has been extended to standpipes. The financial impact of the decrease in revenue was estimated by ONEA at around FCFA 6 billion (USD 11 million). In 2020, ONEA received a FCFA 3.5 million grant from *Agence Française de Développement* to help offset lost revenue. The government has planned an additional 1.5 billion FCFA in 2021 and the remainder in 2022.

In **Ethiopia**, water utilities have played a key role in the COVID-19 pandemic response. During the outbreak, Addis Ababa Water and Sewerage Authority (AAWSA) has received grants from several development partners for the provision of water to low-income areas through installation of [stand-alone water tanks](#) to ensure continuity of services, among other measures. Other utilities have also received funding and technical support, including for procuring chemicals for water treatment and maintaining back-up power generators.

# CONCLUSION: WHERE TO START THE DISCUSSIONS ON APPROACHES TO FINANCE



More traditional sources of funding tend to require fewer reforms in the sector; while innovative approaches and repayable finance come with higher requirements in terms of changes in legislation, regulation, and institutional set up. The level of development of the WASH sector is therefore an important factor in considering alternative approaches.



## IF THE SECTOR IS ALREADY REFORMED

Finance ministers can help develop financial markets that support the sector and efforts to improve efficiency of the sector and service providers.



## IF THE SECTOR IS REFORMABLE AND WILLING TO REFORM

Finance ministers may support with financial incentives to improve efficiency and encourage easier access to market finance.



## IF THE SECTOR IS, AT THE MOMENT, NOT REFORMABLE AS A WHOLE

Finance ministers can provide targeted support to the parts that are willing to improve (e.g., urban utilities in larger towns) through well-designed incentives and subsidies.

Reforms in the water sector can take a [range of forms](#), from fundamental changes to the way that water policies are designed and implemented (including legislative and institutional restructuring in all the sub-sectors) to smaller adjustments to refine existing policy settings and instruments in order to improve their effectiveness. OECD proposes a three-pronged approach to making water reform happen in terms of financing, governance, and coherence between water and other sectoral policies. These broad areas represent the fundamental axes for ensuring that water policy frameworks are sustainable and durable, yet flexible enough to respond to changing conditions.

*For a review on the water sector reforms in Burkina Faso, Kenya, Tanzania, Uganda, and Zambia see [this report](#). For a review of the water sector reform in Nigeria see [this paper](#).*

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