Financing universal access to water, sanitation and hygiene by 2030

Recommendations

- The status of water and sanitation as a human right places a duty on governments preparing for the International Conference on Financing for Development in Addis Ababa to ensure adequate funding for universal access. This duty should inform negotiations and be reflected in the Addis Accord.
- Strengthening domestic resource mobilisation should be the primary approach to financing universal access, with increased government allocations, effective and affordable tariffs, and a vibrant, well regulated private sector.
- Official Development Assistance (ODA) is still vital in low-income country contexts. Allocations to water and sanitation need to increase substantially, with a strong focus on equity, sustainability and strengthening systems.
- High-income countries should allocate 0.7% of Gross National Income (GNI) to ODA and 0.15–0.2% to least-developed countries, with short-term, binding timetables for those falling short.[1]
- Governments and donors should meet existing development effectiveness commitments made in Paris, Accra and Busan, with the key principles included in the Addis Accord.
- International private finance has an increasingly important role in financing sustainable development, but extreme care needs to be taken to ensure financing from private and official lending does not usher in a new post-2015 debt crisis.
- Public–private partnerships (PPPs) require careful evaluation to ensure that services are affordable for poor people, include transparency and accountability mechanisms, and offer long-term value for money.
- Significant momentum should be generated for the development of innovative sources of finance for global public goods, including wider uptake of carbon and financial transaction taxes.

- The Green Climate Fund should be made operational as a priority, with urgent action taken to release the fast-track pledges made in Copenhagen, and a strong emphasis on grants rather than loans.
- Developing countries must be supported in establishing evidence-based adaptation and mitigation goals, with sufficient adaptation funds targeted at improving water security for poor people.

2015 – A watershed year

2015 marks a critical year for sustainable development, with three summits that will define the global development agenda for the next 15 years: the Third Conference of Financing for Development in Addis Ababa in July; the Sustainable Development Goals (SDGs) United Nations (UN) General Assembly in September; and the UN Climate Change conferences in December. This WaterAid briefing note focuses on Addis Ababa, and considers some of the key financing issues to be addressed for universal access to water, sanitation and hygiene (WASH) to be achieved by 2030.

The UN recognises the human right to water and sanitation, and this fact needs to remain central to the Addis Ababa preparations and discussion if the water and sanitation and the poverty eradication goals are to have a chance of success.[2] WASH services must be safe and affordable for everyone. It is also important to ensure lessons learnt during the Millennium Development Goal (MDG) period inform approaches for the post-2015 framework – including recognising major success in achieving the water MDG target, but also the uneven progress across regions and countries, relative neglect of sanitation and hygiene, and failure to adequately address issues of equity and sustainability of services.[3]

Domestic resource mobilisation: primary approach for financing the SDGs

There is a welcome focus in preparations for Addis Ababa on domestic resource mobilisation (DRM).[4] Effective DRM is essential for eradicating poverty and delivering the public services and infrastructure needed for sustainable development. It also enables developing countries to take ownership of their development strategies, meet the needs of their citizens and adopt a pathway out of aid dependence.[5] For the water and sanitation sector, effective DRM requires optimum use of the (domestic) three ‘T’s’ – tariffs, taxes and transfers.[6]

Tariffs need to be set at affordable levels, consistent with the human right to water, with lifeline tariffs and cross-subsidisation to ensure access for poor people. As well as generating sufficient operating and maintenance income for utilities, tariffs need to provide incentives for water efficiency in agriculture and industry.[7] Boosting government tax revenues from current low levels and increasing allocations to water and sanitation is also crucial. In Africa, the 2008 eThekwini and Sharm el-Sheikh declarations committed countries to spending 0.5% of Gross Domestic Product on sanitation and hygiene, but this has gone almost universally unobserved.[8] Improving

DRM also requires nurturing a vibrant private sector; spending by low-income households is often directed to small businesses, entrepreneurs and social operators, such as water vendors, pit-emptiers or artisans constructing latrines. Governments need to foster an environment conducive to private sector engagement, but also be prepared to strengthen regulation where poor people are exploited by unscrupulous operators, or fragmented and uncoordinated sector actor activity can worsen human waste pollution. Figure 1 sets out some key aspects of DRM in the water and sanitation sector.

Governments in industrialised countries can do much more to strengthen DRM in developing countries. Examples include providing aid in fragile or post-conflict contexts to rebuild shattered public administrations, supporting improvements in governance and transparency to tackle corruption, and helping to address human resource and financial absorption constraints.[9] Taking meaningful action on tax havens, which fuel corruption, and on transfer mispricing by transnational corporations, which erodes tax bases, are also important contributions to international policy coherence.[10]

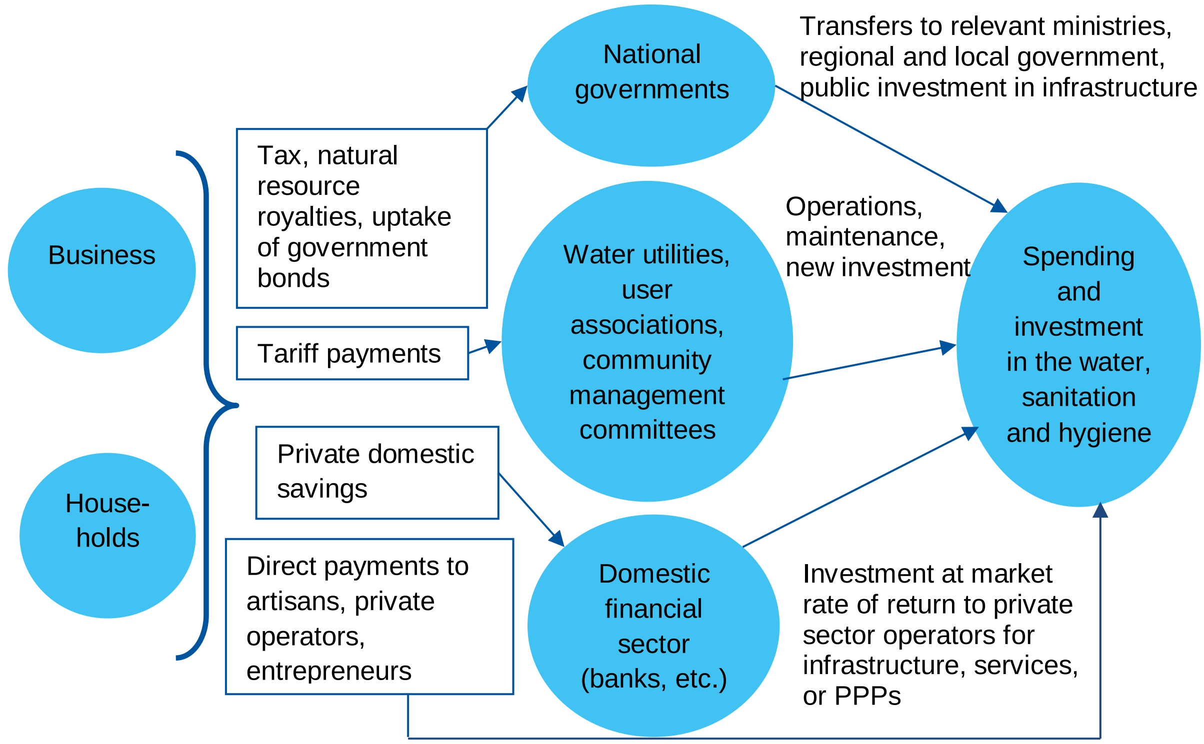

Figure 1: Aspects of domestic resource mobilisation for the water and sanitation sector

An increasing role for international public finance

International finance, both public and private, will also be an essential source of funding for universal access. Several high-income countries have met or surpassed the ODA international benchmark of 0.7% of Gross National Income (GNI). ODA is a vital complement to DRM for financing the SDGs in low-income country contexts, but volumes at $10 billion per year are insufficient on a per capita basis to secure the improvements needed for universal access. Binding, short-term timetables are needed for those high-income countries falling short of the 0.7% – a clear breach of the commitments made in Monterrey in 2002.[11] Agreed benchmarks for least developed countries (0.15–0.2% of GNI) are also not being met, and effectiveness of ODA to water and sanitation could be substantially improved through targeting it on the basis of need; providing it in grant form; and through renewal and reinforcement of the pledges on country ownership, alignment, harmonisation, results and accountability made in Paris, Accra and Busan.

South–South cooperation is a growing source of funding for many countries, with China, Brazil, India and the Gulf States making increasingly significant investments. This is very welcomed; but, together with many separate flows from OECD countries, contributes to a proliferation that introduces a risk of fragmentation, increased transaction costs and challenges around debt sustainability.

An increasing role for international private flows

International private flows are likely to play an increasingly important part in the post-2015 financing framework, especially in middle-income countries and in financing urban infrastructure. PPPs are often the preferred vehicle for mobilising and channelling private flows to water and sanitation, helping to address sector-specific issues such as high capital intensity, political pressure on tariffs, and sovereign risk. Examples of PPPs include build-own-operate-transfer and build-operate-transfer contracts, where private concessionaires build and finance projects and operate them for a period before transferring the assets to public ownership. PPPs require careful evaluation, however, to ensure services are affordable for poor people, include transparency and accountability mechanisms, and offer long-term value for money. The growth in remittances and flows from private philanthropy and international NGOs ($340 billion and $45 billion a year respectively for all sectors) presents a further opportunity for financing WASH from international non-debt-creating private flows.

Key focus needs to be on building country systems

Consensus is growing within the WASH sector that a necessary condition for delivering the step change in sector performance for achieving universal access to WASH services is a concerted focus on building the country systems to manage a progressive reform strategy. External actors from both the public and private sectors have a part to play in delivering their activities and support in ways that strengthen country systems, with donors in particular harmonising their behaviour with non-traditional donors, according to established principles that support country-led efforts. Box 1 shows some key behaviours that WaterAid is promoting with Sanitation and Water for All (SWA) partners.[12]

Box 1: Behaviours for effective, equitable and sustainable development cooperation in the WASH sector

1 Developing and supporting 'One National Plan' for investment and technical assistance

National leadership is essential to direct and coordinate resources – including external support – around nationally agreed sector and development priorities. Government leadership in sector development is stronger when supported by a sector plan that enhances governments' ability to coordinate sector investments and service delivery. When such national sector strategies and priorities are weak or missing, partners should support efforts to build or strengthen them.

2 Strengthening and using country systems

National systems for procurement, financial management, reporting, monitoring and evaluation and audit need to be put in place, strengthened and used. Where full systems alignment is not immediately possible, government and partners should agree a set of intermediate steps to progressively strengthen country systems and move towards using them. These systems should cover both national and decentralised levels.

3 Mutual accountability, learning and corrective action

Effective development cooperation requires appropriate, inclusive processes that encourage all partners to demonstrate and demand mutual accountability for sector progress. These should be built around a government-led, multi-stakeholder process for planning, monitoring, and learning, to ensure a feedback loop between analysis and planning, and foster evidence-based decision-making. This should include – but not be limited to – formal, participatory review cycles such as Joint Sector Reviews and sector coordination meetings. It also requires the international community to support and move towards a more bottom-up global monitoring process, focused on strengthening capacity at the country level.

4 Recording and reporting of donor and domestic expenditure through national budget systems, ratified by developing country parliaments

Transparency and predictability of resources is vital in enabling governments to exercise a leadership role in directing and monitoring sector investment. It is a prerequisite of effective sector planning in the medium and long-term, and crucial to governments' capacity to hold external support agencies accountable and vice versa. Ensuring budgets are ratified by parliament will also help strengthen domestic accountability, and avoid creating accountability distortions that undermine country systems.

5 Prioritising service equity and sustainability

Sector finance effectiveness should be measured by ability to create and deliver equitable and sustainable services and institutions. Moving from a project-based approach to a vision of durable and resilient WASH services is fundamental to poverty reduction and economic growth. This requires partners to support country governments to prioritise institution building over short-term outputs.

Momentum needed on innovative sources of finance

The Addis Ababa conference can and should add significant momentum to the development of innovative sources of finance. There has been longstanding debate over the potential of innovative sources, including financial transaction taxes, airline ticket levies, special drawing right allocations, carbon taxes and solidarity mechanisms. Together they could provide up to $635 billion a year for financing global public goods, tackling climate change and fighting infectious diseases such as Ebola, and contribute substantially to the SDG agenda.[13] France's Financial Transactions Tax has already released funds for the African Development Bank's Rural Water Supply and Sanitation Initiative, and 11 EU states are pursuing an important Financial Transactions Tax initiative, but overall progress in these areas needs to be accelerated sharply.

Action needed to release climate finance commitments

Lack of sanitation in slums and informal settlements leaves inhabitants especially vulnerable to flooding and the impacts of climate change. Photo: Dhaka, Bangladesh.

A similar acceleration of progress is needed for climate finance with the urgent mobilisation of the Green Climate Fund and the US$100 billion pledge for annual climate finance, made by more than 100 countries under the 2009 Copenhagen Accord, turned into real investment.[14] The capacities of many low-income countries so far being bypassed by available climate funds also need to be strengthened. The IPCC identifies water as the fundamental link through which climate change will affect people and the environment, and it will be important that substantial amounts of adaptation finance are available for building resilience and strengthening water security. This is particularly pressing for poor communities, who, because of their location or already unsafe nature of water and sanitation services they use, are most vulnerable to the impacts of climate change. Grant financing must be strongly emphasised.

Conclusions

The Addis Ababa conference presents a critical opportunity to identify the resources needed to achieve universal access to WASH, as part of a broader sustainable development agenda. To deliver these human rights, funding will need to be mobilised from public, private, domestic and international sources, and at substantially increased levels from those reached during the MDG period. The increase in resources, however, needs to be accompanied by steps, led by national governments, to address financial absorption and improve sector performance. This will involve achieving the right mix of recurrent and capital funding to address low functionality rates, and improving the targeting of domestic and external funding to reach poor and marginalised communities, often in rural communities and urban slums. It will also be crucial to ensure that funding, especially from external sources, does not push vulnerable developing countries into debt distress. It has taken decades to restore many heavily indebted poor countries to debt sustainability, and great care needs to be taken to ensure that financing the SDGs does not usher in a new post-2015 debt crisis.

April 2015.
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Endnotes

[1] Local legislation can help enforce national commitments on these timetables, see, for example, the UK Government, which is in the process of legislating on the 0.7% Gross National Income (GNI) target for 2015 and future years.

[2] General Comment 2002
www.unhchr.ch/tbs/doc.nsf/0/a5458d1d1bbd713fc1256cc400389e94/$FILE/G0340229.pdf
UNGA Resolution 64/292 http://www.un.org/es/comun/docs/?symbol=A/RES/64/292&lang=E

[3] The 2012 GLAAS report (p29) points out that water, sanitation and hygiene (WASH) service distribution is often inequitable – e.g. even though 75% of the un-served come from rural areas, 75% of government expenditure is aimed at urban areas. Similarly, only 31% of expenditure was targeted at recurrent operation and maintenance programmes, even though operational and maintenance costs make up 75% of financing needs. Finally, sanitation spending made up only 27% of total expenditure for WASH, and hygiene expenditure 0.3–8.2% of total WASH expenditure.

[4] Report of the Intergovernmental Committee of Experts on Sustainable Development Financing, 2014, Zero draft of the Addis Ababa Accord, 2015. See also Schmidt-Traub G and Sachs JD 2015 *Financing Sustainable Development: Implementing the SDGs through Effective Investment Strategies and Partnerships.*

[5] Postel EG May 2014 *Financing the future, why domestic resource mobilization belongs on the post-2015 development agenda.* USAID.

[6] WHO and UN Water Report 2012 *UN-Water GLAAS 2012 report* p.26

[7] WaterAid 2009 *Access for the poor and excluded: tariffs and subsidies for urban water supply* (2009)

[8] WaterAid 2013 Keeping Promises: why African leaders need now to deliver on their past water and sanitation commitments.

[9] See, for example, the ICESDF (2014) and Elements (2015) papers.

[10] Greenhill and Ali, *Paying for Progress; Eurodad*, *UN Financing for Development Negotiations,* (2014); UN Elements paper.

[11] Official Development Assistance averaged 0.3% of GNI in 2013, with 0.09% of GNI allocated to LDCs, Organisation for Economic Co-operation and Development (OECD), Aid rebounds in 2013 to reach an all-time high. See also Schmidt-Traub G and Sachs JD, 2015 *Financing Sustainable Development: Implementing the SDGs through Effective Investment Strategies and Partnerships.*

[12] These behaviours are drawn from ten case studies analysed by the Sanitation and Water for All Country Processes Task Team.

[13] Sources: OECD Development Assistance Committee statistics; UN (2012), *World Economic and Social Survey: In Search of New Development Finance.*

[14] For instance, developed countries have pledged US$34 billion for fast-track funding under the 2009 Copenhagen Accord, but only 10% has been disbursed. Oxford Policy management briefing note, 2013. For trade-offs between climate change and development finance, see Kharas H, Prizzon A and Rogerson A 2014 *Financing the post-2015 sustainable development goals*, Overseas Development Institute.

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