Mobilizing Additional Funds for Pro-Poor Water Services

Executive Summary

More than 2 billion people, mostly in the poorest countries in the world, lack access to safely managed drinking water services. The estimated cost of meeting the United Nation’s Sustainable Development Goals (SDGs) for drinking water and sanitation services is $1.7 trillion, three times more than has been invested in the sector to date. For many utilities and municipalities serving the poorest populations, there is insufficient local revenue from tariffs or transfers to sustainably self-fund the necessary operational and maintenance expenditures. While reforming and strengthening providers so that they are able to self-finance is certainly key to sustainable service provision, it is unlikely that improvements will occur within the time frame set by the SDGs.

Further, although private finance can play an important role in expanding access to and improving quality of water services for the poor, particularly when combined with concessional capital through blended finance, many utilities serving the poor are not yet ready for this and will continue to need subsidies in the medium term. To leave no one behind, donor capital will continue to have a role to play for a much longer period of time.
Disaggregating funds needed to expand water infrastructure (capital expenditures) from those used to sustain the actual delivery of services through that infrastructure (operational and capital maintenance expenditures) is a necessary first step in understanding how to raise resources to expand services. Even if sufficient resources could be leveraged to invest in expanding infrastructure without resources for operations and maintenance, such infrastructure might deteriorate, and services would continue to lag.

This report seeks to draw from the experiences of other sectors to answer the following question: Where, outside of tariffs, can governments in developing countries and their development partners raise additional resources to sustainably finance safely managed water services in line with SDG ambitions?

After an extensive literature review and stakeholder interviews, we narrowed our focus to look at three models that seemed most promising for a sustainable subsidy approach:

- global philanthropy-led partnerships and funds
- solidarity levies (surtaxes)
- land value capture strategies

These three models have the potential to raise significant international and domestic resources, to fundamentally alter how donors and the private sector collaborate, and to yield reliable, automatic contributions without yearly renewals, allowing a longer planning and implementation horizon.

**Global Philanthropy-led Partnerships and Funds**

Global funds have been established in several sectors, especially in global health (e.g., Gavi, the Vaccine Alliance), as new ways to pool funding for country systems and targeted interventions in developing countries. In health, this has led to a net increase in funding. Global funds usually do not seek to be implementing agencies; however, all global funds require coordination among different stakeholders, and they may help to align interests and motivations. Because reliable service delivery requires ongoing funding commitment, a global fund would require a mechanism through which resources can be reliably replenished.

Multiple funds with the same end goals may not only divert resources and efforts but also create more hoops for recipient governments to jump through. A global fund in water should prioritize funding utilities that have demonstrated a willingness to serve the poorest and should monitor the effectiveness of its funding in increasing access to safe drinking water. If funding could be tied to measurable and verifiable service delivery metrics accepted by a range of providers, it is possible that donors may agree to pooling resources.

Based on our research, we determine that for donors in the water sector to have parallel impacts, there are four unresolved issues:
uniformly monitoring the same outcome (and output) indicators

- providing resources in addition to what is already being provided and deciding on a replenishment time table
- agreeing to focus on funding and not on implementation
- jointly determining how to prioritize investments

**Solidarity Levies**

Solidarity levies are small surtaxes that countries can place on a specific industry or consumer item to raise funding for programs or goals with some sort of “unifying purpose.” Solidarity levies that tax items more often purchased by the middle and upper class (e.g., airplane tickets) may be more likely to receive political backing.

Solidarity levies present opportunities for sustainable, longer-term funding. The solidarity model has allowed Unitaid, for example, to make longer-term funding commitments for bulk purchases of medicines. Funders in the water sector have suggested the use of solidarity levies, especially a tax on bottled water, but sectors such as international trade and finance, telecommunications, and extractive resources could also be taxed. For solidarity levies to be realized in the water sector, one or more donors must assume a leadership role in organizing the architecture of the tax and the principles for its distribution.

**Land Value Capture**

Land value capture is a mechanism that can be used to raise resources domestically, even in lower- and middle-income countries. This is a fundamentally different model than the philanthropy-led models discussed in this report because it is a market-based approach that exploits land price increases resulting from public investments. The only documented cases of market value changes from water service improvements have been those where such investments were made as part of broader urban neighborhood improvement programs. It may therefore be possible to use land value capture as part of a larger infrastructure improvement approach that integrates multiple services, including water.

**Pathway to Sustainability Financed Pro-Poor Utilities**

To meet Sustainable Development Goal 6.1, utilities and municipalities that serve the poor will continue to need subsidies. A stepwise approach that requires that all utilities become fully creditworthy and leverage private capital before extending services to the poor (using repayable capital to make investments in infrastructure) would leave too many behind for too long.

If utilities can be benchmarked not just on their budgetary performance but also on improvements in reaching the poorest populations, it is possible to incentivize improved performance using elements of a results-based financing approach.
Expanding services to the poor can improve utility performance in the long term by creating new customers and establishing new norms of service provision. By integrating pro-poor policies within utilities and benchmarking their success in increasing access to the poor, we can identify utilities that are committed to serving the poor. With support, national utilities in both Senegal and Cambodia have extended contracts to the poorest families and increased safe water coverage while simultaneously investing in better infrastructure, reducing non-revenue water and improving billing and collection.

A philanthropy-led, outcomes-oriented fund could boost pro-poor service access, incentivize improved utility performance, and strengthen utilities toward the goal of financial sustainability. A fund such as the Global Water Access Fund proposed in this paper could blend multiple global and local sources of sustainable funding, pair funding with technical assistance, and measure performance to ensure funding is having the desired pro-poor impact.

To ensure GWAF funds are impactful and aligned with efforts of other stakeholders and partners, the Fund could and should leverage a range of tools beyond simply transferring subsidies, including:

- **Initial assessment** of potential subsidy recipients to ensure they have a clear need aligned with GWAF’s purpose, have the capacity to absorb and transparently manage the funds, and cannot fully self-fund services. Importantly, there needs to be a credible commitment to sound governance that will ensure the effective and efficient use of resources.

- **Smart tariff-setting** to complement GWAF subsidies with locally derived tariffs. This encourages efficient water usage practices, and creates ownership, buy-in, and an expectation of service delivery quality by consumers.

- **Technical assistance** to improve utilities’ management and operational efficiency. Over time, this should lead to both an improvement in services and a decrease in subsidies needed.

- **Performance assessment and subsidy reviews** to ensure that GWAF funds are spent transparently and are having desired impact.

Regardless of the delivery mechanism chosen, however, in order to turn SDG ambitions from pipe dreams to reality, our research suggests the water sector needs to take bold steps. Without long-term, reliable commitment from donors, hundreds of millions in the poorest and most fragile environments will remain without access for too long.

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