Mobilizing additional funds for pro-poor water services

A summary of research findings[1]

Philanthropy can play a key catalytic role for improving water services for the poorest populations by increasing sustainable financing and incentivizing improved provider performance. The water sector can learn from other sectors which have used innovative methods to raise funds that regularly deliver basic services to the poorest.

Sustainable Development Goal 6.1 calls for achieving universal and equitable access to safe and affordable drinking water for all by 2030. Realizing SDG 6.1 within this tight timeframe requires a stronger focus on both the quality of water service provision and ensuring access to the poor, in order to leave no one behind. The estimated cost of meeting the SDGs for sustainable drinking water and sanitation service is $1.7 trillion, three times more than what has been invested in the sector to date. Most service providers receive insufficient local revenue from tariffs or transfers to sustainably self-fund necessary operational and maintenance expenditures. While reforming and strengthening providers so that they are capable of self-financing is key to sustainable, long-term provision of services, it is unlikely that improvements will occur within the time frame set by the SDGs. Mechanisms to bridge financing gaps and support this process are needed to make SDG 6.1 a reality.

Private finance, particularly when combined with concessional capital through blended finance, can play an important role in expanding access to and improving the reliability of water services. However, in the short and medium term, most providers that serve the poor are not privately financeable in their present state and will continue to need subsidies. Therefore, official development assistance and philanthropic funds need to be used strategically to ensure that the poor are not left behind. If utilities can create virtuous cycles of trust with all users and progressively expand coverage to reach everyone, they can use philanthropic

[1] This note summarizes the research methods and findings of the following report:

Nagpal, Tanvi, Ammar Malik, Matthew Eldridge, Yoori Kim, and Chloe Hauenstein. 2018. *Mobilizing additional funds for pro-poor water services: An exploration of potential models to finance safe water access in support of Sustainable Development Goal 6.1*. Washington DC: Urban Institute.

capital to bridge the gaps between the resources raised through non-regressive tariffs and the amounts needed for OpEx and capital maintenance.

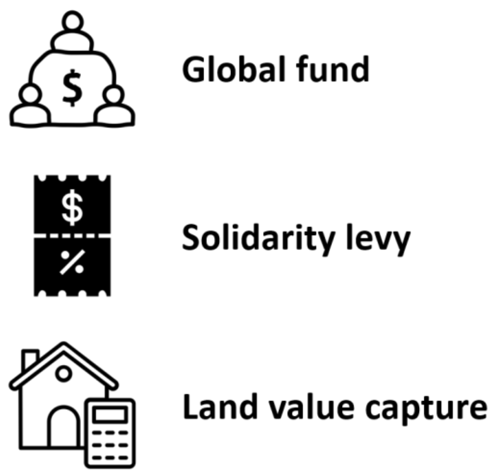
Disaggregating funds needed to expand water infrastructure (capital expenditure) from those for sustaining the delivery of services using that infrastructure (operational and capital maintenance expenditure) is a necessary first step. Even if providers could expand infrastructure, without resources for operations and maintenance, such infrastructure will deteriorate, and services will continue to lag.

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

Research methods

In this study, we considered the roles that private finance, development finance institutions, and philanthropy – as well as blended partnerships that combine them – can play in expanding the pro-poor resources available for operations and maintenance.

We carried out an extensive literature review of three sectors that deliver public goods with large externalities: health, education, and transport. Based on our review and interviews with expert stakeholders, we narrowed our research to look at three models that seemed most promising for a sustainable subsidy approach.



Graphics by Adnen Kadri, I Putu Kharismayadi, and ProSymbols from the Noun Project

These three models have the **potential to raise significant international and domestic resources; fundamentally alter how donors and the private sector collaborate; and yield reliable, automatic contributions without yearly renewals**.

Global philanthropy-led partnerships and funds

Global funds have been established in several sectors to pool funding for targeted interventions and strengthening of country-run systems. In health especially, they have raised significant funds – for example, GAVI has received $15 billion in pledges – and yielded a net increase in funding. Global funds usually do not seek to be implementing agencies, but require coordination among different stakeholders and help to align interests and motivations. Since reliable service delivery requires an ongoing funding commitment, a global fund would need to create 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. It is important for a water global fund to prioritize utilities that have demonstrated a willingness to serve the poorest, and monitor the effectiveness of their funding in increasing access to safe drinking water. If funding is tied to measurable and verifiable service delivery metrics accepted by a range of providers, it is possible that a range of donors will agree to pool resources.

Based on our research, for a fund in the water sector to achieve impacts similar to those of funds in other sectors, donors should agree on: uniform monitoring of the same outcome (and output) indicators; the need for additional resources and a replenishment time table; realignment of focus on raising, distributing, and monitoring resources rather than on implementation; and a framework for prioritizing investments.

Solidarity levies

Solidarity levies are small surtaxes that countries can place on a specific industry or consumer item to raise funds for programs or goals with a "unifying" purpose. Solidarity levies that tax items more often purchased by middle- and upper-classes are progressive, and may be more likely to receive political backing. Once established, they are also more stable forms of finance than international aid budgets (which typically require approval and appropriation annually) and can generate significant sums; UNITAID has raised nearly $1.5 billion, primarily through an airfare surtax.

Solidarity levies present opportunities for sustainable, longer-term funding. This model has allowed UNITAID, for example, to make long-term funding commitments for the bulk purchasing of medicines. Stakeholders in the water sector have begun exploring this option with a tax on bottled water garnering the most discussion, although other sources have also been floated. In order for solidarity levies to be realized in the water sector, one or more donors must step forward and assume the leadership role in organizing the architecture of the tax and principles for its distribution.

Land-value capture

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

Pathway to sustainability financed pro-poor utilities

To meet SDG 6.1, utilities and municipalities that serve the poor will continue to need subsidies. A stepwise approach that requires all utilities to be fully creditworthy and leverage private capital prior to fully extending services to the poor would leave too many behind, for too long.

If utilities can be benchmarked based not just on their budgetary performance, but also on improvements in reaching the poorest, it is possible to incentivize improvements in desired outcomes 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.

Our research suggests that a philanthropy-led, outcomes-oriented fund could boost pro-poor service access, incentivize improved utility performance and sound governance, and strengthen utilities to enable financial sustainability. In our paper, we explore a potential **Global Water Access Fund** (GWAF) which would blend multiple global and local sources of sustainable funding, pair funding with technical assistance, and measure performance to ensure funding has the desired pro-poor impact (see figure below).

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.

Figure 1: Potential Global Water Access Fund