

## WATER DIALOGUES FOR RESULTS



Accelerating cross-sectoral  
SDG 6 implementation

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# Outcome Document for the Expert Roundtable on Financing

*Turning the Tide on Financing -*  
How finance can improve a leaking bucket?



Federal Ministry  
for the Environment, Nature Conservation  
and Nuclear Safety

## Financing as accelerator for cross-sectoral SDG 6 implementation

Water resources as well as safe drinking water, sanitation and hygiene (WASH) are essential services with diverse co-benefits for other sectors, such as e.g. agriculture, health, energy. They create substantial positive impacts on both public health and the environment e.g. as reflected in the “One Health” approach<sup>1</sup>, which in turn generate benefits for the economy. For every dollar invested, there is a US\$ 5.5 return for improved sanitation and US\$ 2.0 for improved drinking water.<sup>2</sup> Yet the investment gap for water and sanitation infrastructure is huge, with US\$ 114 billion in capital investment (excluding maintenance) needed annually to close the gap for SDG 6.1.1 and 6.2.1 alone.<sup>3</sup> The scope and ambition of the 2030 Agenda demands more than traditional public finance and Official Development Assistance (ODA), and requires collective efforts from governments, banks, the private sector, philanthropy and the civil society.

Going forward, a financing paradigm shift is needed: Governments, national and international financial institutions and multilateral actors need to improve planning, targeting and the effective use of existing funding, establish sound policies and regulations and strong institutions to support and mobilize domestic actors and resources, improve utility performance and develop bankable projects, and attract additional investment from private and public sources. Fixing the ‘leaking bucket’ (water sector) into which we pour ‘water’ (funds) should be a priority, for example, through better transparency and targeting of subsidies that are equitable and efficient, as well as a focus on impact-generating investments.

### Participants of the Expert Roundtable

This outcome document has been prepared based on active participation of:

Government Agencies	Representative
Government of Angola	Guillermo Tavara
Government of India	Mr LV Nagarajan
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<sup>1</sup> The health of animals, people, plants and the environment are interconnected. One Health is an integrated approach that recognizes this fundamental relationship and ensures that specialists in multiple sectors work together to tackle health threats to animals, humans, plants and the environment. The global impact and response to the COVID-19 pandemic, a human health crisis caused by a virus passed from animals, highlights the need for coordinated action across sectors to protect health and prevent disruption to food systems e.g. [One Health \(who.int\)](#); [One Health Basics](#) | [One Health](#) | [CDC](#)

<sup>2</sup> United Nations: Global issues – Water. <https://www.un.org/en/global-issues/water>

<sup>3</sup> World Bank (2015): <https://www.worldbank.org/en/topic/water/publication/the-costs-of-meeting-the-2030-sustainable-development-goal-targets-on-drinking-water-sanitation-and-hygiene> / World Economic Forum (2020): This is what we need to prevent another pandemic. <https://www.weforum.org/agenda/2020/11/covid-19-prioritise-access-to-water-and-sanitation/>

<b>MDBs, National Banks, and Bilateral Agencies</b>	
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GCF: Green Climate Fund	Jerry Velazquez
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<b>Private Sector: Operators and Financiers</b>	
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## Main findings of the Expert Roundtable

The participants discussed the following questions in two parallel break-out sessions:

- What political recommendations or messages would help you to invest more, faster, and better in water projects?
- What would you want to add, drop, change, modify to invest more, faster, and better in water projects?

### *Policies, incentives, regulation*

- **There is a need to strengthen the enabling environment for investment (policies, regulations and institutional arrangements) and more coordination across sectors and between different levels of government.** The roundtable highlighted the need for enhanced coordination across sectors and between the different levels of governments. This coordination is especially important in the water sector, given the decentralized nature of water services, and that national governments are often a key source of funding through fiscal budgets - as well as often playing a key role in the regulation of user fees and tariffs which is the other main funding source - for water sector investments. This should **include government-set frameworks for investments at the municipal or provincial level.** These frameworks (policies and regulations) create institutional links between central and provincial or local administrative structures that enable local authorities and municipal enterprises access financing for water projects (including private financing).
- **National governments have a key role to play in strategic investment planning, risk assessment and management**—risks cannot be addressed by the private sector alone, and government should address these more prominently. National governments can put in place the core framework conditions to improve the investment climate and better channel investments. To build and strengthen financial viability in the sector, policy frameworks and financial strategies need to be long-term, coherent, and appropriate to be effective at the local level, including investment plans and budget planning that consider utility performance. Long-term strategic investment planning at the basin level should consider the positive and negative impacts of water-intensive investments on shared resources as well as changing climatic conditions and future uncertainty. Although water is essential, in multiple markets the terms offered for power projects are much better (sovereign guarantees, full currency protection, etc.) than for water projects; this could be changed.
- **Multilateral Development Banks and Bilateral Financiers can use their influence and help by encouraging coherent and consistent policy and institutional frameworks, including policies and strategies for financing.** In many countries, practically all large water projects are often financed by multilateral or bilateral actors; yet, these projects do not support or require coherent and consistent policy frameworks and may undermine the sustainable management of water resources. These investments would be more effective if banks and financiers worked collaboratively with each other and with government counterparts to encourage coherent commitment to and progress toward well-set policies and targets. This includes considering impacts on water resources and exposure to water-related risks of investments outside of the water sector, notably in agriculture, energy, urban development, etc.

### *Financing Frameworks*

- **The water sector needs increased and more effective public spending that can further leverage private investment and engagement.** Innovative approaches are needed, such as performance-based financing, bonds that provide credit enhancement by de-risking and more concessional financing. Blended financing can crowd in private financing, and there should be more focus on its capacity to de-risk. De-risking policies are needed (including making use of blended finance as market building instrument) and stable legal frameworks (see section above). Intermediaries have a role to play to bridge the gap between the supply and demand for finance, but efforts of many actors may not always be aligned with the most pressing needs to improve the enabling conditions.
- **Where concessional financing is used, government and other stakeholders must be careful to not crowd out the private sector.** Often multiple financing vehicles—subsidized through different mechanisms and from different agencies—compete (with each other and with the private sector) for

water projects. Avoiding this requires a much more coordinated approach to the public and private sides of development, working together to deploy the most appropriate financing vehicle for a given water project. Projects should consider a range of financing and delivery options, reserving concessional financing to unlock private financing or for where private financing would otherwise not be available. MDBs, bilateral and other agencies must be more mindful with concessional financing, fostering **transparency in subsidy elements** and a stronger dialogue on whether it is needed for a given project, and whether they are potentially crowding out private financing. To this end, offering blended finance and transparency and **coordination between private and public sector go together in attracting private equity and commercial debt**.

- **An improved financing paradigm and scope to scale up good practice:** Governments, national and international financial institutions, and multilateral actors must improve planning, targeting and effective use of existing funding, establish sound policies, institutions and regulations to support and mobilize domestic actors and resources, improve utility performance and develop projects, and attract additional investment from public and private sources. There is considerable scope to collect, share and scale up good practice related to water financing approaches with a proven track record, as well as learning from emerging experience with dedicated funds, facilities and financing vehicles.

#### ***Tariffs, Pricing, and Subsidies***

- **Tariffs need to be set at adequate levels.** The Policy paper speaks about the important dimension of affordability. At the same time, ensuring cost recovery and financial viability are essential to achieving long term development goals and sustainability of water services and for creating the environment and a proper market that would enable the private sector to invest and encourage sustainable use of resources. Bringing together these two important dimensions—affordability and financial viability—requires careful design of well-targeted subsidy schemes, finding the right balance between equity and efficiency. This could include a stronger focus on willingness to charge vis-à-vis willingness to pay vis-à-vis ability to pay. Affordability is best addressed with targeted social measures, rather than through the water bill.
- **Societal consensus on the value of water and addressing current or future water scarcity.** Countries should build a national consensus on how to address current or future water scarcities. This can be done through a national dialogue that would explore the value that water creates and represents to different parts of society. Such dialogue, and the ensuing work towards a consensus, could lead to different behaviours and investments, more efficiency, less waste and greater benefits from well-managed water resources and ecosystems.

#### ***Capacity Development***

- **Raising Awareness of integrated approaches.** Since water and sanitation need to be prioritized comprehensively, broadly targeted education on sustainable water usage and re-use is important to ensure social acceptance, mainstreaming such practice to enhance water use efficiency.
- **Strengthen capacity to negotiate and manage privately finance projects at the municipal level and provincial level.** Developing capacities on the types of financing available for projects (and on how to mobilize private capital using credit enhancement and other measure) can help in developing and implementing more water projects. The capacity gaps at the local and provincial level—in negotiating and managing privately financed projects—are huge and must be addressed. A valuable opportunity for increased knowledge sharing could be a dedicated platform to collect good practices and share experience on financing water. Central governments need to strengthen and assist municipalities and local actors to competently prepare and negotiate water projects with investors. While capacity

development to this end is much needed, the first step must be to set, clarify, and enforce the political and regulatory frameworks setting the right incentives.

***Political Leadership***

- **Political leadership can lead to strong and coherent national policies, institutional and regulatory frameworks that are consistently enforced, and clear guidance and support to local governments to improve capacities by setting the right incentives.** Inconsistencies in policies and institutions can only be addressed by real leadership.
- **Commitment beyond electoral cycles.** To attract financing for multi-year commitments, governments must find ways to also offer commitments on their end – notably commitments that go beyond electoral cycles. To do so, governments need to build a deep and broad societal consensus on a policy framework that is strong enough for “beyond-electoral-cycle” continuity.