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TRANSFORMATION TOWARDS SUSTAINABLE
AND RESILIENT WASH SERVICES

**Financing WASH services to 2030 across Africa:
reflections from a 12 country policy dialogue**

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This paper summarises the reflections from a 12 country policy dialogue on financing WASH services to 2030 hosted by the Collaborative African Budget Reform Initiative (CABRI) in November 2017 in collaboration with Oxford Policy Management. The dialogue brought together director-level representatives from Ministries of Finance and Line Ministries with responsibilities for Water and/or Sanitation. This paper provides a brief summary of the current funding and financing trends in WASH before turning to the key reflections of stakeholders during the dialogue. The reflections of the senior government officials responsible for WASH indicate that additional investment is needed for the sector through governments own contributions and through innovative financing mechanisms.

Introduction

Access to basic needs like water and sanitation, remains a key challenge for most African countries. In a review of 18 African countries inadequate sanitation alone was estimated to cost these countries USD 5.5 billion annually in economic losses –equivalent to between 1 percent and 2.5 percent of GDP in the countries reviewed (World Bank, 2012). With this in mind, CABRI convened a Policy Dialogue in November 2017 in Accra involving over 60 government officials from finance, health and WASH-related ministries from 12 African countries², as well as group of technical experts. The dialogue provided a platform for peer exchange and learning on the common WASH policy challenges, and included visits to water and sanitation schemes in Accra. This paper is based on the Accra dialogue and is informed by the salient issues contained in background documents prepared for the dialogue, such as the managing and financing of WASH services in sub-Saharan Africa and institutional structures.

The authors were the conveners of the policy dialogue. This paper summarises the key reflections that emerged during the dialogue. The first half of the paper provides a general overview of WASH financing across African countries which contextualises the reflections from the workshop as presented in the second half of the paper.

Recent progress in WASH across sub-Saharan Africa

Water is high on the political agenda in many African countries due to the strong demand for better services expressed by populations. This trend is likely to continue as climate change and rapid urbanisation will place increasing stress on water resources and urban infrastructure. On the other hand, sanitation has historically been lower on the political agenda. This is gradually changing as the benefits of sanitation, such as improved health, dignity and safety, are increasingly being recognised thanks to a growing body of evidence.

There was strong progress on increasing access to WASH services over the Millennium Development Goal (MDG) period (2000–2015) in sub-Saharan Africa. Approximately 269 million people gained access to at least basic drinking water services and a further 112 million people gained access to at least basic sanitation services (JMP 2017). However, the scale of the challenge remains large. Due to population growth, the number of people using surface water or other unimproved services increased in absolute terms over the MDG period.

The Sustainable Development Goals (SDGs) build on the momentum of the MDGs; and are far more comprehensive and ambitious. Not only do the SDGs set targets for universal access to water (Goal 6.1) and the elimination of open defecation (Goal 6.2), but they expand the definitions of access to consider service quality. The ambitions of the SDGs are currently not well reflected in many national WASH policies or targets; globally, less than 20 percent of countries have set targets for universal access by 2030 (UN Water 2017). The ambition of the SDGs is also reflected in the current estimates of the costs of meeting them. In sub-Saharan Africa, the costs of meeting SDGs 6.1 and 6.2 are estimated to be US\$35.4 billion (19.6 urban, 15.8 rural) – equivalent to 2.01 percent of the region’s GDP (Hutton and Varghese 2016). Furthermore, the costs of reaching these higher services levels is considerably greater than extending basic services. The higher level of service implied by the SDGs are approximately triple that of extending ‘basic’ services. This poses a great challenge for African countries; many of whom are seeing a diminishing fiscal space due to fluctuations in commodity prices and a decline in official development assistance. Though as presented in the section below, the burden of WASH expenditure in many countries lies mainly with households.

Key characteristics of WASH sector expenditures

Identifying and tracking WASH sector expenditure can be considerably more challenging than in more social sectors such as health and education; and the literature and methods are less developed than in those sectors. Though thanks to the development of TrackFin, and initiatives such as GLAAS there is now a growing body of data mapping WASH expenditure in many countries. These data are beginning to illuminate the comparative trends in WASH financing.

Data are increasingly disaggregated by funding agent (government, donor, household, and repayable finance), and this breakdown is essential to understanding the funding and financing landscape of different countries. Among countries is SSA with comparable data³, with the exception of South Africa, government expenditure accounts for less than 30 percent of total WASH expenditure (UN Water 2017). In Ghana, government expenditure is estimated at only roughly 5 percent of total WASH expenditure (ibid). In all cases, household expenditure is about 30 percent or more. With the exception of Ghana and South Africa, external sources (largely donor funds) account for a sizeable proportion (40–50 percent) of total expenditure. Finally, another common feature is the limited role repayable finance plays in countries’ sectors. Below the key characteristics of the major funding sources (household, government, external, and repayable) are discussed in turn.

Government expenditure

Data on government expenditure in WASH is often scarce as there is limited routine reporting that is disaggregated to sufficient detail. Until TrackFin was implemented in 2015, the sector also lacked a consistent method for classifying and tracking sector expenditures. TrackFin is now providing a more detailed picture of government funding to the WASH sector in many countries. Though in many cases periodic Public Expenditure Reviews (PERs) provide the best view into government expenditure in WASH. Recent reviews in Ethiopia (World Bank 2016), Mozambique (World Bank 2010 and 2014), Sierra Leone (World Bank 2011), Burkina Faso (World Bank 2008) and Kenya (OPM 2017) highlight some key common trends with regards to WASH sector expenditure:

- Expenditure is heavily weighted towards development (capital) expenditure, often constituting more than 80 percent of budgets.
- Budget execution in the WASH sector is lower than other social sectors. This is partially due to difficulties in executing development budgets.
- Recurrent budgets are dominated by salaries, with only small allocations for O&M.
- Budgets are often increasing in absolute terms, but in many cases falling as a proportion of total government expenditure or GDP.
- Sanitation expenditure is difficult to identify and, when compared to water and other sectors, is considerably underfunded.
- These public expenditure reviews capture donor expenditure to varying degrees. But in most sectors it is recognised to be an important source of finance. Especially the case in financing large infrastructure projects.

Household expenditure

In a 2016/17 review of 25 countries globally – the largest exercise undertaken to date – it was found that on average 66 percent of expenditure in WASH is undertaken by households (UN Water 2017). This household

expenditure can take the form of tariff payments or expenditure on self-supply. The balance between these two forms is highly dependent on context. For example, in Ghana, US\$87 million is spent annually on tariffs, but this is dwarfed by US\$978 million spent on self-supply (such as construction and maintenance of private wells and toilets). However, there are other countries where the reverse is true and expenditure on tariffs is far greater than on self-supply. The importance of self-supply expenditure and tariffs can be easily overlooked as they are not apparent when budgeting or developing financing strategies. However, these expenditures can place a considerable strain on household budgets, and the lack of data in this area potentially masks inequities in the burden of WASH expenditures.

External finance

Water and sanitation official development assistance (ODA) expenditure (disbursements) increased from US\$6.3 billion in 2012 to US\$7.4 billion in 2015. However, over the same period spending commitments fell from US\$10.4 billion to US\$8.2 billion. This decline was particularly sharp in Sub-Saharan Africa, where it fell from US\$3.8 billion to US\$1.7 billion. It is uncertain whether external finance will continue to play a substantial role in sector funding and financing – especially in countries that have recently gained middle income country status. The recent (2013-15) decline in WASH ODA (-21 percent) is set against an overall increase in all-sector ODA commitments (+24 percent) over the same period (UN Water 2017, based on OECD CRS data).

Reflections from the policy dialogue

Given the financing challenges discussed above, meeting the challenge of universal access will be daunting with significant capital investment required in the first instance, and then as services are developed maintaining these through operation and maintenance (O&M) expenditure. It is estimated that, in order to meet the SDGs, O&M expenditure will need to rise from US\$4.2 billion in 2015 to US\$31.1 billion in 2030, by which time it will be 40 percent greater than the capital investment requirement (Hutton and Varghese 2016). Raising service levels in WASH will entail progressively greater per capita investment in more sophisticated technology. The policy dialogue recognized that taking a phased approach to progressive service expansion is a viable route to achieving universal access while raising service levels. The points captured below highlight the key themes that emerged across the dialogue process.

There is a strong economic case for additional funding WASH, especially sanitation, though WASH line ministries are often unable to articulate this case to Ministries of Finance and sectors are generally underfunded in Africa

For many countries, the sector is funded largely by donors and household expenditure. Government expenditure in WASH is fairly limited in most African countries. Some countries shared their experience that a poor execution rate by spending agents is a contributing factor to reduced government spending, especially when funding is tied to performance. Particularly, Ministries of Finance are unwilling to increase budget allocations in the context of underspending in the previous year's budget. During the Policy Dialogue, government officials debated as to whether the WASH/ health ministries have sufficiently made the economic case for investment to the finance ministry and, if they have, why government spending in WASH remains so low.

There was a general view that the economic case for funding has been made, though public investments may not reflect this due to the tight fiscal space. Participants generally appreciated that the disease burden emanating from poor WASH, and the economic losses incurred in terms of GDP, present a strong argument for additional funding. What is often less well articulated are the results in the sector – particularly the credibility of results and that they focus at the output as opposed to outcome level. Cases were raised – notably in South Africa – where the Ministry of Finance has taken a very active role in improving sector performance through linking budget allocations to the achievement of PFM related performance indicators. Additional investment in the WASH sector will require increasing the fiscal space, improving sector budget execution, articulating value to Ministries of Finance, and finding innovative ways to fund the sector. These are discussed further in the sections below.

Universal access to WASH requires an increase in fiscal space – and WASH services are typically funded by the '3 Ts' – taxes, tariffs and transfers

To achieve universal access, tax revenue needs to increase. This requires growing the tax base and governments becoming more efficient at mobilising domestic revenue. Resource-rich countries need to fully

exploit their revenue potential, which can then increase the fiscal space for WASH investments. Fiscal space can also be increased through increased efficiency within the sector. For example, within the urban sub-sector non-revenue water is also an important source of inefficiency. Addressing inefficiencies in the sector would ease the burden of the tight fiscal space, and might even create opportunities for subsidisation of tariffs for disadvantaged communities. In this case transfers typically refer to donor funds. These are generally declining, as are all forms of overseas development assistance. However, participants agreed that there are still opportunities to attract transfers through the setting up of special funds for the sector.

Innovative financing mechanisms for WASH must be fully explored

Innovative sources of finance refer to sources other than taxes, tariffs and transfers. Public-private partnerships (PPPs) and trust funds were discussed as the two innovative financing options that could help to bridge the financing gap. Many of the countries represented at the Policy Dialogue had experience with water PPPs, but their experiences were mixed. For example, there were cases where PPPs introduced competitiveness into the sector, bringing reliable supply and much-needed investment. However, it also led to a rise in utility prices, which increased the financial burden on the poor. The key lessons shared as far as PPPs are concerned were: PPPs need effective incentives and strong regulations to work; there needs to be a good policy environment; the role of the government should be very clear; and PPPs should be fit for purpose, meaning that there needs to be clarity on the types of project that require a PPP arrangement in order to deliver sustainable, efficient and affordable WASH services.

Other options discussed included creating a more enabling environment for private enterprise in delivering services – for example the encouragement of ‘small water enterprises’ in Ghana – though may expressed reservations surrounding the effectiveness of this approach as a large-scale measure. Other countries, such as Mali and Côte D’Ivoire, shared that they have ‘water investment funds’ largely funded by tariffs. Nigeria and Central African Republic are in the process of setting up and operationalising a water fund. The key lessons on the various funds are to ensure that the responsibilities of the various stakeholders are clear, that there are clear rules on the use of funds.

Coordination is key to the success of multi-institutional structures to manage WASH

Less than 20 per cent of African countries place water and sanitation responsibilities wholly under the same ministry – examples are Ghana, Mozambique, Zambia, Uganda and, until recently, Madagascar. Having water and sanitation under one ministry can help to prioritise WASH; however, some countries with a more fragmented structure have been effective at improving WASH with good co-ordination. It was emphasised that co-ordination and clear roles and responsibilities are vital, irrespective of the choice of institutional structure. Decentralising the administration and provision of WASH services potentially ensures that services are brought closer to the beneficiaries. A case study of Kenya was discussed to illustrate the fact that central oversight, clear regulation, accountability mechanisms, community participation and local capacity are key to the success of decentralising WASH services. The challenge for many countries with decentralised service delivery responsibilities is that the local authorities with a mandate for WASH services are not necessarily directly accountable to the central ministries in charge of policy and finance. These are constitutional issues with no easy solutions, so it becomes essential for the communities to be involved and to hold local government authorities to account. Alignment of all ministries, departments and agencies to a national agenda is also important.

The role of good data in supporting improving WASH outcomes

Data are important in the pursuit of WASH goals for several reasons: they allow insight into the funding gap; they allow countries to track progress effectively; and they provide the evidence base to inform policy. The availability of WASH data varies significantly between countries. While some, such as South Africa, routinely track data, others do not. In some contexts, the WASH-related ministries would have to make special requests for the collection of WASH data in the household surveys. With regards to data on sector expenditure, while all countries have ‘some’ data from ‘some’ of the main sources, very few have a complete picture of sector funding and financing.

Good planning and budgeting matters strongly for good WASH outcomes

Evidence from public expenditure reviews shows that expenditure is heavily weighted towards development (capital) expenditure, often constituting more than 80 per cent of the budget. In the planning and budgeting process, there is a need to ensure allocation for operations and maintenance. Other common sector challenges related to planning and budgeting include: issues related to fiscal decentralisation and the flow of

funds between administrative levels; the absorptive capacity of service delivery agents - often related to capacity to execute development expenditures; the lack of a clear funding strategy that sets out how costs should be covered and from which sources; poor co-ordination of actors with overlapping mandates; and insufficient focus on performance (i.e. linking expenditure to outputs/outcomes). It is also noted that often Ministries of Finance have a different conceptual framework for performance than that of sector line ministries. With Ministries of Finance placing a greater emphasis on PFM related performance indicators.

Summary and conclusion

Enormous progress has been made in WASH in the last two decades, with hundreds of millions of people on the African continent gaining access to basic services. However, the challenge remains huge, with many more people still lacking access, and sector funding below what is needed to meet the SDGs. Meeting the 2030 WASH targets will require a focus on efficiency, particularly utility performance in the urban subsector and local government in the rural subsector; an improvement in the execution of development budgets by establishing fit-for-purpose procurement procedures and sufficient human resources, and increasing finance through innovative sources while emphasising the larger role private service providers can play.

There is increasing recognition by government officials in Africa that low prioritisation of WASH, especially sanitation, undermines overall investments to improve health outcomes. Governments also recognise that the WASH sector needs targeted policy approaches to rural and urban areas where there are significant inequalities. A key learning from the dialogue is that sector line ministries need to better articulate the case for investment beyond the broad economic case; and this often entails improving and articulating performance in a way Ministries of Finance can engage with. The diverse nature of institutional structures in the sector makes it critical that there is effective coordination and communication among role-players. This is also relevant where overlapping mandates have an impact on the allocation of funding. Most fundamentally this rests on a well-defined legal footing for the institutional structure. It is essential, too, that there is effective monitoring of progress in the sector.

A clearer picture of WASH sector funding and financing has emerged in tandem with shifts in the funding landscape in many countries – most notably declining donor and external finance in countries gaining middle income status. This paper has outlined both some of the most salient trends in WASH sector funding and financing as well as reflections of government officials on those trends. Government expenditure in the WASH sector cannot be considered outside of the broader fiscal context and the systems governing intergovernmental fiscal transfers. Increasing funding to the sector not only entails better articulating the case for greater budget allocations, but also increasing the fiscal space through improved sector efficiency and increasing tax receipts. Household expenditure will likely remain a large proportion of overall sector expenditure. Recognising the role that household expenditure already plays in funding WASH services entails also recognising the role utilities and the informal and private sectors; as well as the potential for their role in extending services. In most countries the ambition of the SDGs entails much greater expenditure in the sector; though only through services being affordable to all can universal access be achieved.

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Notes

- ¹ This paper is based on the work of a broader team; the other contributing authors include: Ian Ross, Tomas Lievens and Peter Burr from Oxford Policy Management.
- ² Ghana, Burkina Faso, Central African Republic, Cote D'Ivoire, DRC, Ethiopia, Gambia, Guinea, Mali, Nigeria, South Africa and Botswana.
- ³ Data on all key sources: Ghana (2014), South Africa (2016), Zambia (2016), Mali (2014), Kenya (2016), Lesotho (2015). Data missing for household expenditure: Guinea (2015), Zimbabwe (2016), Mozambique (2015), Madagascar (2015) and Berundi (2015)

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