

A close-up photograph of a young child with dark skin and short hair, wearing a red and green patterned shirt. The child is drinking water from a public tap. Their hands are cupped together, and water is dripping from them. The background is a bright, sunny outdoor setting with a clear blue sky and some dry, hilly terrain.

# GLOBAL INVESTMENT FUND FOR WATER

How innovative finance can help end water poverty

Conceived and commissioned by Duncan Goose, Global Ethics  
Researched and written by Sarah Beeching, Oshun Partnership

Background Paper, July 2015

## Acknowledgements

This discussion paper was conceived and commissioned by Duncan Goose, founder and CEO of Global Ethics Limited and The One Foundation, and researched and coordinated by Sarah Beeching, Executive Director of Oshun Partnership, with Oshun Associate, Katy Cronin.

Global Ethics has a number of trading and philanthropic functions including The One Brand, a philanthropic business founded in 2006 that makes bottled water drinks and donates 100% of its profits via The One Foundation to fund clean, sustainable, water projects in some of the harshest regions of Africa. To date, The One Foundation has allocated over \$20m to clean water projects benefiting more than 2.7m people.

Oshun Partnership specialises in mobilizing collective action to tackle problems across development sectors, bringing together policy makers, politicians, private sector leaders and civil society to find solutions and generate processes to realise them.

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**CONTENTS**

**ACRONYMS** ..... 4

**FOREWORD** ..... 5

**EXECUTIVE SUMMARY** ..... 6

**A GLOBAL INVESTMENT FUND FOR WATER (GIFFW)** ..... 7

    Figure 1: Indicative margins on bottled water sales ..... 9

    Figure 2: Global bottled water volumes and sales ..... 10

    Figure 3: Top 10 grocery retailers ..... 11

**DEFINING THE WASH SECTOR** ..... 13

    Figure 4: World Water Use 2010 (Adapted from climate.org) ..... 13

**RECENT HISTORY – FRAGMENTATION VS. COORDINATION** ..... 14

**THE MDGS – LESSONS LEARNED** ..... 14

    Box 1: Results achieved from MDG 7c targets ..... 14

    Figure 5: Countries on track and off track to meet drinking water target ..... 15

**A NEW WASH GOAL 2015-2030 – MORE FOCUS AND AMBITION** ..... 16

    Box 2: The Sustainable Development Goal..... 16

**EQUITY – WHY THE POOR PAY MORE** ..... 17

    Figure 6: Rural-urban drinking water coverage (WHO/UNICEF 2014) ..... 17

**THE WASH VALUE CHAIN – IT’S ALL CONNECTED** ..... 18

    Figure 7: The “value chain” of WASH (OECD 2011)..... 19

    Figure 8: Accountability in the WASH sector ..... 19

**FINANCING REQUIREMENTS – FUNDING AND DATA GAPS** ..... 20

**CORE FUNDING SOURCES** ..... 20

    Box 3: Understanding sources of finance for the WASH sector ..... 21

    Figure 9: Sources of finance for the WASH sector (Adapted from OECD 2010a)..... 22

**STAKEHOLDERS IN WASH – WHO’S WHO?** ..... 23

    Figure 10: Key behaviours affecting WASH delivery ..... 23

    Figure 11: Donors – Major ODA contributors to the WASH sector 2012 ..... 25

**INNOVATIVE FINANCE - LESSONS FROM HEALTH** ..... 27

    Figure 12: Example of portfolio approach for a financing facility for WASH..... 29

    Box 4: Examples of Innovative Financing Vehicles in WASH..... 30

**TOWARDS A GLOBAL INVESTMENT FUND FOR WATER** ..... 31

**BIBLIOGRAPHY** ..... 32

    ANNEX A: DRINKING WATER AND SANITATION LADDERS ..... 33

    ANNEX B: DATA ON KEY DONORS’ SPEND IN WASH (2012) ..... 35

    ANNEX C: INTERVIEW LIST ..... 36

    ANNEX D: USEFUL WEBSITE LINKS ..... 37

## ACRONYMS

<b>CGIAR</b>	The Consultative Group for International Agricultural Research
<b>CIFF</b>	Children's Investment Fund Foundation
<b>CSO</b>	Civil Society Organisation
<b>DAC</b>	Development Assistance Committee (OECD)
<b>DFID</b>	Department for International Development (UK)
<b>EUAID</b>	European Union Aid
<b>GAVI</b>	Global Alliance for Vaccines and Immunisation
<b>GLAAS</b>	Global Analysis and Assessment of Sanitation and Drinking-Water
<b>GSF</b>	Global Sanitation Fund
<b>GWP</b>	Global Water Partnership Organization
<b>HIPC</b>	Highly Indebted Poor Countries
<b>IBRD</b>	International Bank for Reconstruction and Development
<b>IDA</b>	International Development Association
<b>IFC</b>	International Finance Corporation
<b>IFFIm</b>	International Financing Facility for Immunisation
<b>IMF</b>	International Monetary Fund
<b>GHIF</b>	Global Health Investment Fund
<b>JMP</b>	Joint Monitoring Programme
<b>MDG</b>	Millennium Development Goal
<b>MDTF</b>	Multi-Donor Trust Fund
<b>NGO</b>	Non-Governmental Organisation
<b>ODA</b>	Overseas Development Assistance
<b>ODI</b>	Overseas Development Institute
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PIDG</b>	Private Sector Infrastructure Development Group
<b>PPP</b>	Public-Private Partnership
<b>PRSP</b>	Poverty Reduction Strategy Plans
<b>SDG</b>	Sustainable Development Goal
<b>SIDA</b>	Swedish International Development Association
<b>SWA</b>	Sanitation and Water for All
<b>TOF</b>	The One Foundation
<b>UN</b>	United Nations
<b>UNFCCC</b>	The United Nations Framework Convention on Climate Change
<b>UNICEF</b>	United Nations Children's Fund
<b>UNOPS</b>	United Nations Office for Project Services
<b>WASH</b>	Water, Sanitation, and Hygiene
<b>WATSAN</b>	Water and Sanitation
<b>WB</b>	World Bank
<b>WEDC</b>	Wisconsin Economic Development Corporation
<b>WHO</b>	World Health Organization
<b>WSP</b>	Water and Sanitation Program
<b>WSSCC</b>	Water Sanitation and Supply Collaborative Council

## FOREWORD

In 1998, I was caught in Hurricane Mitch, a deadly Atlantic storm that ripped through Central America, killing more than 10,000 people and leaving over 2 million homeless. I was in Honduras at the start of a long and life-changing journey, during which I was also shot at, lived through an earthquake and relied a lot on the kindness of strangers.

What I learned from these experiences is that we are all part of one human family and that for many people living on this planet, my experiences were not so unusual. I also believe that if we know a member of our family is starving, or homeless, or has no access to clean water, most of us would try to do something about it.

That is why, when I returned to London, I created Global Ethics and co-founded One Water – a bottled water and drinks brand which donates 100% of profits to water projects in sub-Saharan Africa. Since 2006, One Water has generated over \$20 million and provided water services to over 2.7m people.

2.7 million sounds like a lot, but with more than 660 million people still lacking access to safe drinking water, I realised that ending water poverty was going to need a much more ambitious approach.

So I started to ask - what if we could raise one cent from every litre of bottled water sold worldwide? If the big water bottlers and retailers got involved, we could raise billions, not millions, to set up an investment fund. With that kind of catalytic finance, we really could start to fill the financing gap and end water poverty by 2030 – as set out in the SDGs.

The idea was floated to a small gathering of business leaders at 10 Downing Street in May 2014. They didn't run a mile, so, over the last year, I've kept pushing it. To my pleasant surprise, the idea is catching on. I've given it a working title: *A Global Investment Fund For Water*, and people across the industry have positively supported it.

This paper, researched and written by Sarah Beeching of Oshun Partnership, starts to address some of the questions that need to be answered if *A Global Investment Fund for Water* is to become a reality. It is very much a work in progress and comments, suggestions and willing partners are warmly welcomed.

Thank you for your interest in the concept of *A Global Investment Fund for Water* - if you would like to find out more, or offer support or advice, we would love to hear from you.



## EXECUTIVE SUMMARY

Water is essential for life and all aspects of human development. Although it is a natural resource on which we all rely, water is rarely a 'free' or purely public good. It is now widely accepted that communities, businesses and organisations should have to pay in some way for water access or use.

Water is therefore investible, capable of delivering returns.

However poorer people often pay disproportionately high prices for water in absolute terms or as a proportion of income. Ensuring that new investments are structured to address the needs of all citizens, at an equitable price, is an important balance to be struck.

This paper set out to explore the potential for a new fund – based on income from the bottled water industry - to catalyse investments to end water poverty. The research and interviews that inform this paper are not exhaustive, but have found considerable consensus around some key points.

- First the paper outlines the case for *A Global Investment Fund for Water* based on a voluntary one cent per litre contribution from bottled water retailers. The fund would provide a vital income stream of some billions of dollars each year to address some of the huge shortfall in investment. The concept has been well received by individuals in the international development, financial, water, corporate and NGO sectors.
- Next we consider the reasons for success and failure in the WASH sector, defining key concepts and asking why progress on water and sanitation has been so patchy. Our research confirmed that ad hoc, project based, or 'dictated delivery' investments offer limited success, while countries with a government-led national plan, backed by donors and other partners including the private sector, delivered far better results. We realised that any new fund must be part of a wider global and national policy and funding framework.
- By examining and defining the WASH value chain, this paper also suggests potential entry points for investment, and the importance of ensuring that all links in the chain function effectively. It also highlights the enormous and relatively unexplored potential for the domestic private sector to invest in WASH – but it will need adequate funds and support to be effective.
- There are significant financing needs in the WASH sector, particularly around sanitation. Some initial ideas on assessing which parts of the WASH value chain are best addressed by a new financing vehicle, and how resources would be deployed, are also set out in this paper.

It is hard to understate the importance of developing coherent global and national approaches to addressing major WASH challenges. Fragmented approaches do not identify and address the bottlenecks and blockages to building and maintaining water infrastructure. Integration is even more important in the context of rapidly growing populations and increasingly aspirational national development plans. We therefore recommend that any new financing mechanism to address water poverty must be integrated into wider global and national frameworks.

Structuring those policy and financial frameworks is not without challenge. While a number of global partnerships and platforms already exist, none has yet generated the momentum needed to create a step change in the WASH sector. But stakeholders are becoming better organised and there is interest from some of those partners in this financing initiative. The post 2015 MDG / SDG process is focusing minds and this paper aims to help build consensus around what needs to be done.

Also explored in this paper are innovative financing initiatives in health and other sectors, which may be useful in thinking through a GIFFW. However we counsel against simply replicating financing mechanisms that were created for other sectors or contributed towards solving other problems. The *process* of creating a funding mechanism to address water poverty is as important as the finance it generates. Bringing the right stakeholders and investors into the process of defining a mechanism ensures sustained commitment and replicable results. Setting out next steps and suggested sequencing will help flesh out the feasibility of a new mechanism in both technical terms *and* its viability in political terms.

There is also an emerging group of far-sighted development organisations that have identified key gaps in the sector, particularly around the lack of investable propositions in the domestic private sector. Though they operate on a smaller scale, organisations such as Water for People, Water.org and PSI are investing in ‘market facilitation’, the process by which grant finance is used to package transactions for potential investors. Importantly their work is docked within a system-wide approach to the sector, not as ad hoc projects. These approaches show potential for replication and scaling.

### **Next steps need financing**

Change rarely happens overnight and bringing together different actors requires patience and persistence. The international development system can be slow to mobilise, while the private sector may be more impatient. Finding the right balance between international development organisations, the private sector and the political aspirations of developing country partner governments is not straightforward. But it has also been achieved in other sectors, the timing is right and accelerating progress is possible.

## **A GLOBAL INVESTMENT FUND FOR WATER (GIFFW)**

In 2015, a new set of global development goals will replace the Millennium Development Goals. These new “Global Goals” will be formally endorsed by the UN in September 2015.

The draft goal for water and sanitation (Goal 6) sounds simple, but is in truth a very big ask:

**“Ensure availability and sustainable management of water and sanitation for all”**

At present, most developing countries say their water and sanitation financing requirements are not being met – whether for new services or for maintenance and improvement of existing ones.

Without a step change in financing and delivery of water and sanitation programmes globally, the new Sustainable Development Goal for this sector will not be met, and as a consequence, millions of children will continue to die of preventable disease like diarrhoea, and millions more people will continue to face intestinal illness, cholera and blindness, all causing significant barriers to health, development and education.

Many effective water and sanitation programmes have been implemented, proven models exist, but they are usually relatively small scale. Successes need to be taken to scale, and whilst existing resources must be spent effectively, additional financing is required.

**The concept of a Global Investment Fund For Water is to create a catalytic financing facility to improve water resource management and accelerate access to clean water and sanitation, supported by the global bottled water industry.**

The process for working out which parts of the WASH value chain are best addressed by a new financing vehicle will need to build on experience from many partners including (not exclusively) IFC, WSP, World Bank, UNICEF, CSOs and private models such as Sanergy, World Toilet Organisation and Sanishop.

**Support from the technical experts is therefore essential and docking this initiative into the global political process is essential for success.**

The 2014 GLAAS report identifies the following key sector challenges:

- **Insufficient financing:** 80% of countries reported current levels of financing insufficient to meet targets for drinking water and sanitation.
- **Funding gap in rural areas:** the vast majority of people lacking access to basic sanitation live in rural areas, though the bulk of financing benefits urban residents. Expenditures for rural sanitation comprise less than 10% of total WASH financing.
- **Weak national capacity to execute WASH plans:** Despite strong political support for universal access to water and sanitation, less than one-third of the countries surveyed have national WASH plans that are being fully implemented, funded and regularly reviewed.
- **Critical gaps in monitoring:** reliable data is vital. Though many countries have WASH monitoring frameworks in place, a majority reported inconsistent or fragmented gathering of data and weak capacity for analysis.
- **Neglect of WASH in schools, health facilities:** Water and sanitation services in schools can clinics, WASH services ensure the privacy and safety of patients, particularly expectant mothers during delivery, and are essential to prevent and respond to disease outbreaks.

## Investments pay off

Investments in water and sanitation yield substantial benefits for human health and development. WHO estimates, ‘for every dollar invested in water and sanitation, there is a US\$ 4.3 return in the form of reduced health care costs for individuals and society.’<sup>1</sup> Millions of children can be saved from premature death and illness related to malnutrition and water-borne diseases. Adults can live longer and healthier lives.

The benefits cut across many sectors. Economic and environmental gains include, for example, greater productivity in the workplace and reduced pollution of water and land resources. Gains in quality of life include improved more time, as less is spent collecting water, greater school attendance, greater privacy and safety – especially for women, children and the elderly – and a greater sense of dignity for all.

Importantly people pay for services, and today they often pay far too much for poor services, this needs to change.

## Bottled water & retail industry

**A Global Investment Fund for Water could leverage 1 cent per litre from every bottle of water sold globally.**

In 2014, global bottled water consumption was more than 333 billion litres – at a value of USD \$148 billion.

The sector is anticipated to grow to 445 billion litres and USD \$200 billion by 2019.

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<sup>1</sup> Press Release: [UN reveals major gaps in water and sanitation – especially in rural areas](#)



By leveraging 1 cent per litre at the point of sale, this could create a fund in excess of \$3 billion per annum, generating a substantial new financial resource to begin to fill the financing gap for water resource management and clean water for households and sanitation.

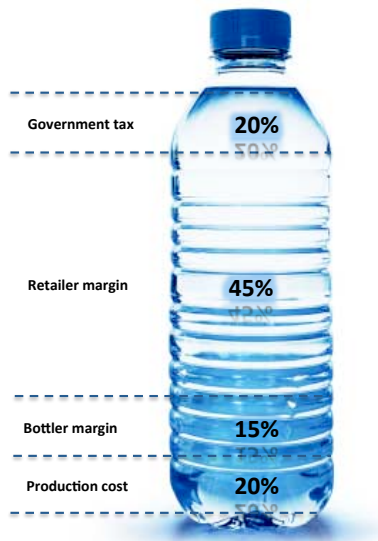
Though the trajectory to reach this global headline would take time to achieve, the potential for substantial income flow to come on-line quickly is high because of the size of the global retail and bottling sectors – and market growth projections, including in developing countries.

**This concept holds the potential to generate a critically important domestic income stream for developing countries.**

The bottled water industry has a worldwide presence with many countries involved in processing and exporting bottled water to other countries as well as producing domestically bottled brands. The sector has multiple brands, but none has significant global market share. The industry already invests in humanitarian water programmes (vs. water stewardship) – Coca Cola, most notably with Project RAIN, Nestle, Danone, One Water and a number of smaller brands globally also support projects – Volvic’s 1 for 10 Campaign also uses brand marketing campaigns to leverages the impact of its brand to do good. However, these programmes are ad hoc, and tend to be linked to corporate social responsibility, rather than the core business of the firm or broader national programmes. There is no obligation on the firms to continue to fund WASH programmes, nor to follow good donorship practices in allocating resources and coordinating with others, including host governments. It demonstrates the fragmented approach across the sector, which is understandable from a commercial perspective (ie using brand / CSR campaigns to gain market share) but doesn’t harness the potential for impact by bringing the sector together.

Understanding the value chain for the industry helps to see where potential funding might come from. While margins vary considerably by manufacturer, brand, distribution and sales channel, on a typical 500ml bottle of water selling at a notional \$1, the state will receive around 20 cents in tax, the bottler will receive around 15 cents, the retailer 45 cents, the rest will be accounted for by costs of production and transportation and taxes. This is for conceptual explanation only and not intended to be controversial in favour or against any part of the value chain, but it does indicate several options for raising a 1 cent per litre contribution.

**Figure 1: Indicative margins on bottled water sales (for illustrative purposes only)**



The bottled water industry has grown dramatically in the past decade, and industry analysts expect growth in total consumption to reach almost 445 billion litres in 2019. A contribution of 1 cent per litre, means the sector could potentially contribute more than \$4 billion per annum to the *Global Investment Fund for Water* within a few years.

Figure 2: Global bottled water volumes and sales

litres millions	2004	2009	2014	2019f
<i>Global Bottled Water Consumption 2004- 2019, Litres (including bulk)</i>				
North America	25.5	33.7	41.5	50.6
West Europe	45.1	47.0	49.0	53.0
East Europe	11.5	16.1	18.4	20.4
Latin America	29.0	37.5	50.6	62.6
Asia Pacific	38.7	72.0	130.9	200.0
Middle East	13.0	19.9	27.5	34.9
Africa	4.3	9.2	15.7	24.1
<b>Total Volumes</b>	<b>167.1</b>	<b>235.4</b>	<b>333.6</b>	<b>445.6</b>

*Global Bottled Water Sales 2004- 2019, (including bulk)*

USD millions	2004	2009	2014	2019f
North America	16.5	21.9	26.6	32.7
West Europe	29.7	32.7	33.5	37.0
East Europe	5.7	9.3	10.7	11.9
Latin America	6.2	12.6	19.8	35.7
Asia Pacific	9.8	21.3	42.6	62.3
Middle East	3.4	5.7	8.3	10.6
Africa	1.7	3.7	6.4	9.8
<b>Total Sales</b>	<b>73.0</b>	<b>107.2</b>	<b>147.9</b>	<b>200.0</b>

Source: Zenith International for Global Ethics

Figure 3: Top 10 grocery retailers

Rank	Retailer	Group Sales \$bn	% of global market
1	Wal-Mart Stores, USA	358,751	13.2%
2	Carrefour Group, France	103,887	3.8%
3	CVS, USA	99,227	3.6%
4	Seven & I Holdings, Japan	83,203	3.1%
5	Tesco plc, UK	77,724	2.9%
6	Costco, USA	76,776	2.8%
7	Kroger, USA	74,083	2.7%
8	Schwarz Group, Germany	73,984	2.7%
9	Aldi, Germany	64,175	2.4%
10	Metro Group, Germany	60,471	2.2%

Source: 2014 IGD, Institute of Grocery Distribution

### Incentivising participation

In order for *A Global Investment Fund for Water* to be effective in generating resources, it will require the support of the bottlers, the retailers, and governments. What will incentivise them to engage?

The beauty of this concept lies in its simplicity – one cent per litre – a global movement, cutting across competitive boundaries towards a common humanitarian goal. It also has the opportunity to mitigate consumer concerns and producer obligations to address the environmental costs associated with bottled water – most notably from plastic packaging, but also transportation.

Most importantly, a long-term strategy and investment stream to fund integrated water resource management is in the interests of all. Governments and their private sector partners would have access to new financial resources for investment in water management, people benefit from safe water and sanitation, the economy benefits from a healthier population and more reliable water services, and, over time, investors in water and sanitation infrastructure receive returns.

As a next step, and with further funding for the idea, the rationale and business case will have to be developed to encourage “buy’in” from the private sector. There has to have a financial motivation as well as a developmental one.

### Compulsory vs. voluntary participation

**Would a levy (compulsory or voluntary) on bottled water be accepted, and generate an effective innovative financing resource?**

- i) **Political feasibility** and acceptability by contributors: a levy on bottled water has strong political support from environmental organisations and water sector advocates, but could face resistance from industry lobbies.

- ii) **Stability and predictability of resources:** strong predictability with value of market outperforming volume.
- iii) **Management effectiveness:** strong for bigger suppliers, weak for smaller retailers and could prove costly for levy collection. Focus should be on larger bottlers/ retailers ie have a volume cap – no levy for retailers selling less than X thousand litres per annum.
- iv) **Flexibility of implementation:** Strong – levy can be decided at the national level with specific mechanisms in each country including government passing back a % of sales tax.
- v) **Win-win criterion and ethical risks:** Win-win, will contribute to improved global water resource management and improved water and sanitation for poorest as well as PR potential for bottled water brands.
- vi) **Resource mobilisation capacity:** High – market increasing and demand for good is price inelastic at the margin.
- vii) **Probability of effective use of resources and impact:** Strong if GIFFW is linked to government-led approaches and effective international aid coordination mechanisms.

There are costs to the environment associated with bottled water, especially when plastic bottles are used. The same can be said for using plastic bags, or using airlines. There are well-documented examples of taxing both plastic bags and airline tickets to raise resources for development programmes (the French airline tax levy which supports UNITAID is one example). Compulsory participation in a scheme to generate income from bottled water is attractive for a number of reasons. The income stream is guaranteed (though subject to sales fluctuation) and tax authorities hold responsibility for its collection. However, there are costs associated with collection that would need to be quantified. Many governments refuse on principle to hypothecate taxes to specific funds. Furthermore, there is no guarantee that funds raised through bottled water sales would be attributed to a *Global Investment Fund for Water*. This approach would require clear commitments on the part of the governments where the retailer firms are domiciled i.e. global collective action on the part of governments would be required, which could be met with resistance from powerful retailers and bottlers.

A voluntary approach should be attempted in the first instance. The costs associated with a levy would likely be passed to the consumer, hence the profit risk to retailer is minimised. This would depend on the elasticity of the demand curve for bottled water. Though inelasticity is certainly not infinite, at the margin the likely decline in sales from a 1 cent increase in price per litre will be negligible (e.g. a \$1.35 bottle of 500ml water would add three-quarters of a percent to the retail price). However, retail price per litre tends to be inversely proportional – eg large / bulk formats tend to sell at a lower price/litre than smaller formats so there may need to be some ‘averaging’ of a levy across all formats sold at retail.

Typically bottled water pricing is raised each, or every few year(s), during annual negotiations – and thus, for convenience, could be built into the retail price change i.e. a retailer gets an X plus half cent increase, and the other half cent goes to the fund).

Indeed, the opportunity for major retailers and bottlers is an ability to promote a direct developmental impact and benefit from sales of their products, creating a social good from bottled water sales, and mitigate negative perceptions. It is for this reason that the idea of a fund for *water resource* management is proposed, rather than just for WASH.

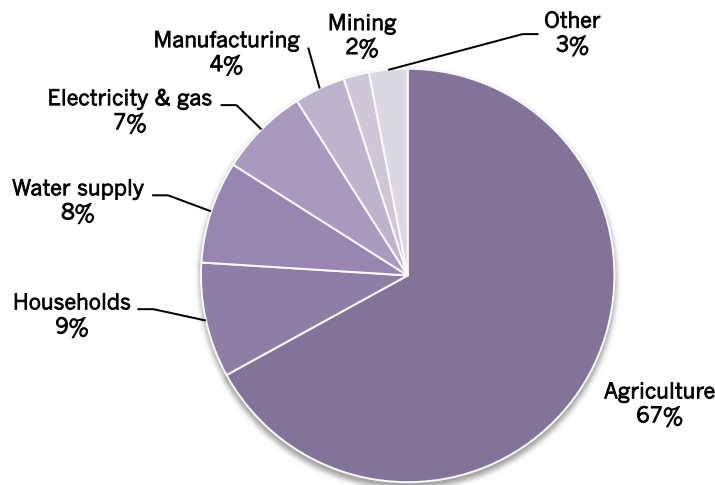
Companies will recognise that water resource management needs improving and can benefit all, including the bottler/retailer. Achieving this enlightened approach will require an early quorum of big players to agree to participate, for example in the process of implementing their commitment to the UN Secretary General’s CEO Water Mandate.

This report concludes with proposed next steps for progressing the plan, but first sets out further information about the WASH sector, MDG outcomes for water and sanitation, the WASH value chain, funding needs, current financial flows sources and data gaps.

## DEFINING THE WASH SECTOR

The balance of water usage for domestic purposes versus industry, agriculture and power is around 10:90.

Figure 4: World Water Use 2010 (Adapted from climate.org)



The focus of this study is the WASH sub-sector of the water policy discussion. There is broad agreement that providing the world’s population with access to safe water would be sustainable, even though it would undoubtedly lead to an increase in consumption. Even given the predictions for population growth to 2050, it is an entirely achievable objective.

The bigger challenge is sanitation and hygiene-related behaviour change. These are generally agreed to be essential complements to sustainable delivery of domestic water, however investment and progress on sanitation in particular is very slow.

This paper starts by analysing policy trends including the ingredients of successful and unsuccessful programmes, the success and limitations of international targets for water and sanitation access, equity issues and the gaps in financing for the provision for water and sanitation.

Next, understanding the value chain and interconnections within the sector is vital. Failures in delivery in the past have often stemmed from inadequate attention to the many interdependent elements of the WASH value chain.

The role of the private sector in WASH is sometimes contentious but it is also widely recognised that private sector investment, particularly by the domestic private sector, will be one of the keys to improved

service delivery for the poorest. We look at the openings that exist for greater private sector engagement and what that could mean for innovative finance opportunities.

Finally we look at various coordination bodies in the WASH sector, which has historically suffered from a highly fragmented approach, with multiple stakeholders undertaking uncoordinated projects. We set out the key collective organisations and partnerships that have attempted to bring coherence to the sector.

The next step in accelerating the process is to gain interest and support for this concept, as part of a wider global effort to end water poverty and deliver safe water and sanitation to all, long before we reach the mid-point of the 21<sup>st</sup> century.

## RECENT HISTORY – FRAGMENTATION VS. COORDINATION

According to the Water and Sanitation Program (WSP) at the World Bank, prior to 2000, water and sanitation services were largely project-based and delivered predominantly by donors and NGOs. Developing countries lacked strategic plans to guide decision-making, plan infrastructure or regulate and maintain service delivery or quality. Sustainability considerations or system-wide approaches that could identify water needs and fulfil them on a national basis were patchy at best.

There were a few exceptions. In 1996, the IMF and World Bank launched the Highly Indebted Poor Countries (HIPC) Initiative. In order to qualify for debt relief, countries had to develop Poverty Reduction Strategy Plans (PRSP) through a broad-based participatory process. Ethiopia, Uganda and Benin identified water and sanitation as a priority and received significant technical assistance from the World Bank, alongside concerted efforts to coordinate partners in-country. The efforts and investment have paid off. Ethiopia, Uganda and Benin are all on track or have met the MDG target on water and sanitation. Those HIPC countries that did not identify water and sanitation and left development to ad hoc or project based approaches have done markedly less well. WSP is now working with the lagging countries, sharing best practices, generating country-led strategic plans and coordinating multiple stakeholders, including the domestic private sector.

## THE MDGS – LESSONS LEARNED

It was not until the Millennium Development Goals were created in 2002 that global development goals were identified and even then water was not a headline goal. MDG7 is focused on Ensuring Environmental Sustainability. Four targets were set within that goal, of which only one, 7C, focused on the provision of water and sanitation. See Box 2 for results of Target 7C and Figure 3 for countries which are on-track and off-track in providing access to improved drinking water sources.

### Box 1: Results achieved from MDG 7c targets

**To halve the proportion of the population without sustainable access to safe drinking water and basic sanitation by 2015**

The world met the target of halving the proportion of people without access to improved sources of water, five years ahead of schedule.

Between 1990 and 2015, 2.6 billion people, or more than a third of the world's population, gained access to improved drinking water sources.

2.1 billion have gained access to improved sanitation since 1990, but progress varies by region and one billion people still resort to open defecation. The vast majority of people practising open defecation (82 per cent) live in middle-income countries.

In 2015, 663 million people are still without access to an improved source of drinking water. 2.4 billion people still lack access to improved sanitation facilities.

As the MDGs draw to a conclusion in 2015, there are a few observations worth noting about the water and sanitation component of MDG 7.

First, the fact that the safe drinking water target was met so far ahead of schedule indicates that it was not sufficiently ambitious. The focus on access, to the detriment of quality, is one reason that targets have been relatively easily met (this is true of other sectors too). There are large disparities between access to improved drinking water in urban areas, whether in middle-income or poor countries, and the rural areas of both.

Second, measurement of progress has focused on system elements, for example moving from open bore hole to covered standpipe, but may not always measure the actual quality of water. (See Annex A Drinking Water and Sanitation Ladder).

Third and equally important, no systematic attempts were made to monitor sustainability of supply and also subsequent contamination of the water from storage receptacles or from other contaminants such as livestock, chemicals or sewage. To drill a hole and put a pump on top is simply not enough.

Fourth, the links between lack of sanitation, water contamination and poor health outcomes are proven. Yet, the sanitation sector lacks critical investment and progress is decades behind the MDG target.

**Figure 5: Countries on track and off track to meet drinking water target (WHO/UNICEF 2012)**

166 countries have already met the MDG drinking water target, 31 are on track and 45 are not on track.

## A NEW WASH GOAL 2015-2030 – MORE FOCUS AND AMBITION

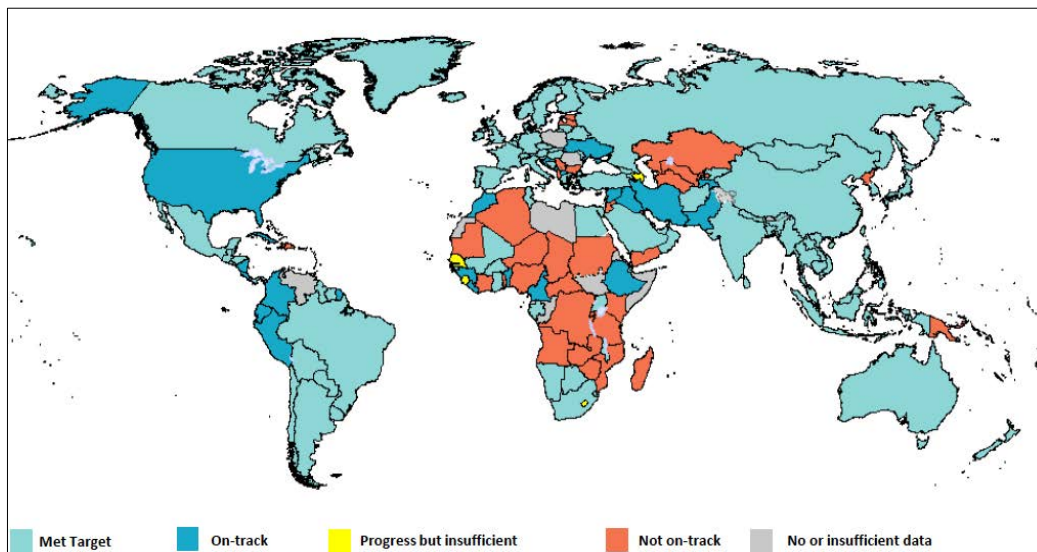
While the 2000 Millennium Development Goals did not include a separate goal for water and sanitation, the new goal displays considerably greater focus and ambition – as it should:

### Box 2: The Sustainable Development Goal (UN Zero Draft)

*Goal 6: Ensure availability and sustainable management of water and sanitation for all*

1. By 2030, achieve universal and equitable access to safe and affordable drinking water for all
2. By

access  
and  
and  
all and  
paying  
the  
women  
and



2030,  
achieve  
to adequate  
equitable  
sanitation  
hygiene for  
end open  
defecation,  
special  
attention to  
needs of  
and girls  
those in  
vulnerable  
situations



3. By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and increasing recycling and safe reuse by [x] per cent globally
4. By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity
5. By 2030, implement integrated water resources management at all levels, including through transboundary cooperation as appropriate
6. By 2020, protect and restore water-related ecosystems, including mountains, forests, wetlands, rivers, aquifers and lakes
  - a. By 2030, expand international cooperation and capacity-building support to developing countries in water and sanitation-related activities and programmes, including water harvesting, desalination, water efficiency, wastewater treatment, recycling and reuse technologies
  - b. Support and strengthen the participation of local communities in improving water and sanitation management

## EQUITY – WHY THE POOR PAY MORE

Inequity in the distribution of water and sanitation services is usually the result of a number of systemic failings. These can be associated with poor service delivery, but also inequitable cost burdens.

The poor frequently pay more for their water in absolute monetary and relative income terms than their wealthier compatriots. Effectively this means that the wealthy are benefitting from subsidies paid to water or sanitation facilities, while the poorest often purchase water or pay to use public toilets directly from those who are better off.

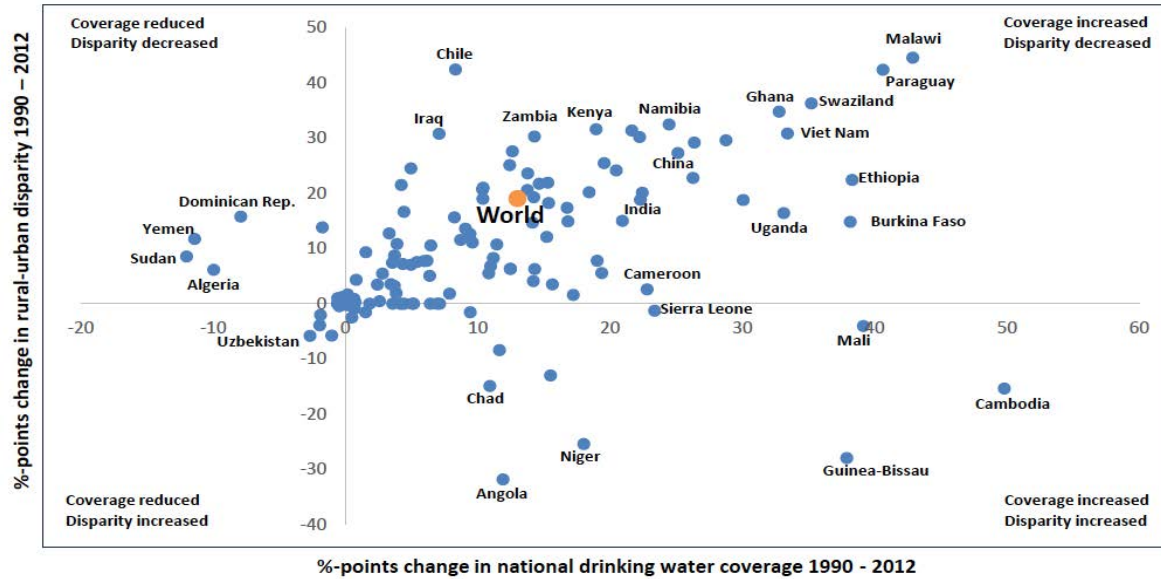
According to the Global Analysis and Assessment of Sanitation and Drinking Water (GLAAS, 2014) report:

- Two thirds of countries recognise the human right to water and sanitation in their constitution or other legislation, but this is not necessarily complemented by effective policies or resource allocation.
- A majority of countries have national policies that include measures to reach disadvantaged groups but there is little monitoring of progress.
- National policies for drinking-water and sanitation exist in the majority of countries but only a few are being fully implemented, funded and regularly reviewed.
- Full implementation of WASH plans and measures in health care facilities is generally low across all developing countries.
- Human resource capacity in WASH is constrained by limited financial resources, as well as shortage of skilled graduates and reluctance of skilled workers to live and work in rural areas.

Inequalities are much greater between rural and urban areas with the former far less likely to access improved water and sanitation facilities than the latter. However in the period from 1990 to 2012, there have been reductions in rural-urban disparity in respect of access to drinking water in 87 countries

Figure 6: Rural-urban drinking water coverage (WHO/UNICEF 2014)

**In 87 countries drinking water coverage increased while rural-urban disparity in access decreased**



**THE WASH VALUE CHAIN – IT’S ALL CONNECTED**

Engineers have historically dominated the water and sanitation sector, with a focus on technology and infrastructure. Political analysis of the stakeholders in the sector has often been weak. In practice this means that projects may have been delivered, but there has often been insufficient effort to ensure that the other elements that go towards ensuring longevity, sustainability and accountability are put in place: management plans, capacity building, behaviour change and adequate on-going investment.

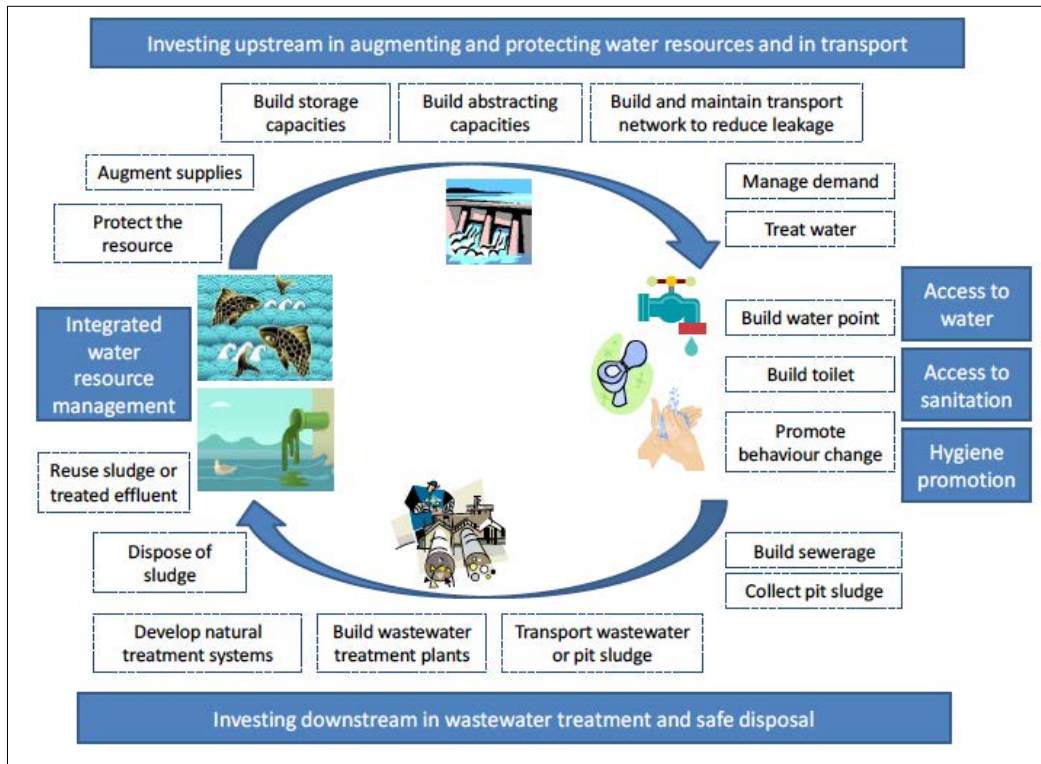
In order to identify opportunities to accelerate progress, and to assess whether there is space for a new financing vehicle, it is critical to clearly define the various elements of the WASH sector and understand the current sources of finance. This sounds straightforward, however since responsibility for the sector often falls under many ministries and industry sectors, gathering data on what is being spent is not easy.

Sanitation funding is particularly hard to track in most developing countries, as there is no ministry for sanitation or a specific budget line. This makes it very difficult to track investments, identify needs or evaluate the success of a project.

**The virtuous circle**

In order to begin the analysis, Figure 6 below sets out the WASH value chain. This is a virtuous circle that embraces good sanitation management/waste disposal to ensure that water sources are not contaminated, effective provision and management of water supply, alongside the promotion of good hygiene practices to protect health. **Every piece of the value chain needs to function well to deliver clean, safe water on a sustainable basis.** Bottlenecks or delivery failures can occur at any stage and will undermine the outcomes.

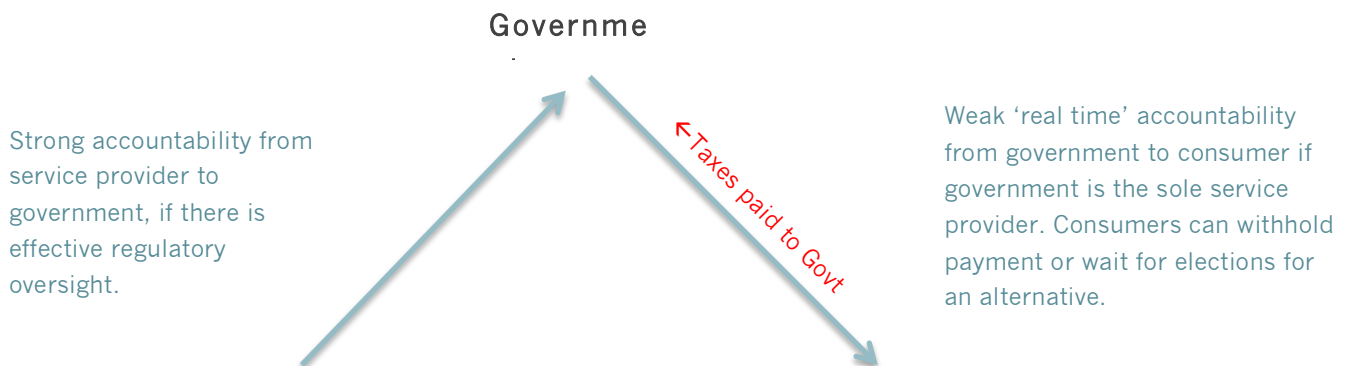
Figure 7: The “value chain” of WASH (OECD 2011)



### Accountability across the value chain

National accountability for WASH is based on the interaction of three key groups of stakeholders: government, service providers and consumers (see Figure 7). Weakness in the interactions between these groups leads to a lack of effective planning and long-term investment, lack of oversight or cost effectiveness in the sector. Understanding the service model and weaknesses in the chain of accountability are important steps to identify bottlenecks that may be holding back progress.

Figure 8: Accountability in the WASH sector



Taxes & fees paid to Govt →



## FINANCING REQUIREMENTS – FUNDING AND DATA GAPS

Armed with a more detailed definition of the WASH sector, it is possible to start looking at financing requirements. The points below reflect key issues raised in the WHO/UNICEF Joint Monitoring Report 2014, GLAAS Report (authored by UN Water) and by the Organisation for Economic Co-operation and Development (OECD).

### Analysing current financial flows:

A good understanding of the financial flows into the sector (both recurrent expenditure and investment) is essential in order to assess whether existing funds are being used efficiently, whether they are adequate and how they may need to be increased so as to extend access, and to ensure that services are delivered on an equitable and sustainable basis. Such data can help with monitoring progress towards achieving targets, benchmarking performance within and across countries, estimating future needs, mobilising additional financial resources and helping to ensure value for money.

### Big gaps in data to track financial flows

At present there are major gaps in information, especially when compared with other essential services, such as health and education. A number of recent initiatives have been undertaken to fill those gaps, but this is still very much a work in progress. Data on government spending on sanitation and hygiene education is particularly lacking.

Attempts to undertake global reporting and monitoring, including through the UN-Water Global Analysis and Assessment of Sanitation and Drinking Water (GLAAS) in 2008, 2010 and 2012, 2014 do not yet provide sufficiently robust or detailed evidence for policy-making at the national level<sup>2</sup>.

## CORE FUNDING SOURCES

Core funding for the sector can come from three main sources: tariffs (from households as users of the service), taxes (from domestic taxpayers via government institutions) and transfers (from entities that

<sup>2</sup> Trémolet and Rama, 2012

make voluntary contributions, such as international donors or philanthropic organisations). See Box 3. Repayable financing from private or public sources can also be used to bridge a temporary funding gap.

### Box 3: Understanding sources of finance for the WASH sector

*Following the typology established by the OECD (2009), there are three main sources of finance for the WASH sector: tariffs, taxes and transfers, commonly referred to as the 3Ts:*

**“Tariffs” are funds contributed by users of WASH services for obtaining the services.** Users generally make payments to service providers for getting access to the service and for using the service. When the service is self-provided (e.g. when a household builds and operates its own household latrine), the equity invested by the household (in the form of cash, material or time—“sweat equity”) would also fall under “tariffs”.

**“Taxes” refer to funds originating from domestic taxes that are channelled to the sector via transfers from all levels of government, including national, regional and local.** Such funds would typically be provided as subsidies, for capital investment or operations. “Hidden” forms of subsidies may include tax rebates, soft loans (i.e. at a subsidised interest rate) or subsidised services (e.g. subsidised electricity).

**“Transfers” refer to funds from international donors and charitable foundations (including nongovernmental organisations [NGOs], decentralised cooperation or local civil society organisations) that typically come from other countries.** These funds can be contributed in the form of grants, concessionary loans (i.e. through the grant element included in a concessionary loan, in the form of a subsidised interest rate or a grace period) or guarantees.

### Data limitations and caveats

Whereas transfers from OECD donors are tracked with some accuracy (although not in sufficient detail to fully inform policy-making), data on domestic government spending and private spending (mostly from households via tariffs or direct investments) can be either incomplete or unreliable. Financial flows for which data are unreliable are seldom taken into account, which may result in a distorted understanding of current financing and potentially wrong policy decisions. This limited understanding is partly due to the fact that the sector is fragmented and complex, typically with four main subsectors<sup>3</sup> with different institutional setups, various financing sources and financing channels, and a mix of service providers, including public and private ones. As a result, consolidated data are seldom available at the national level and are therefore difficult to compile on a comparable basis at an international level.

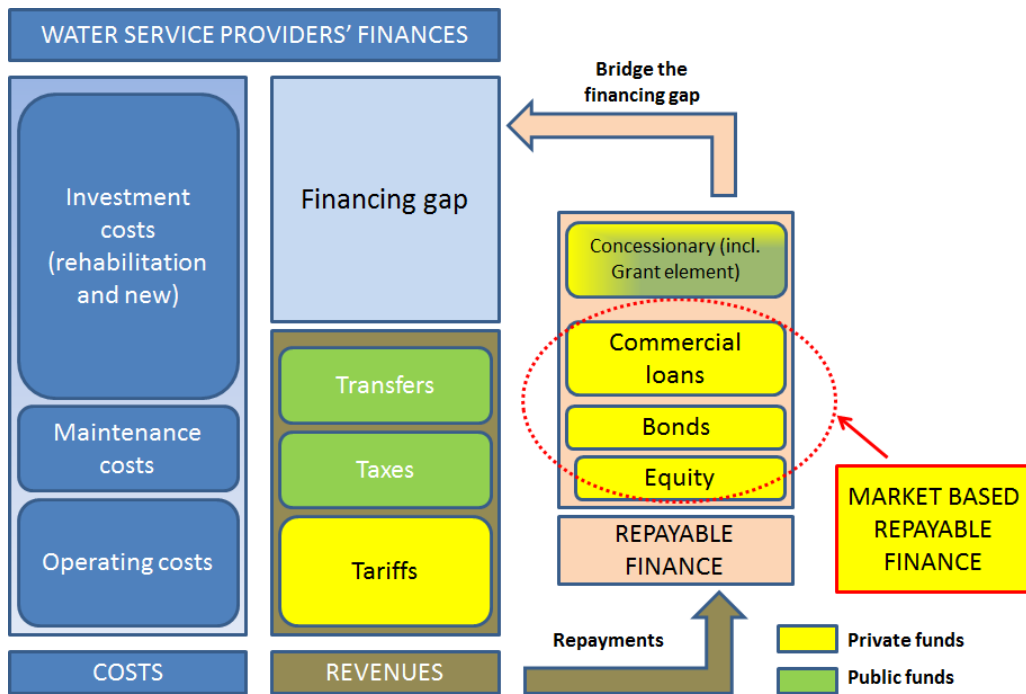
However, once the financing flows have been mapped out (see Figure 8), there are broadly two methods for collecting information on such flows:

- **The “top-down” approach consists of tracking revenues from each financing source,** i.e. estimating “how much money is allocated to the sector”, and aggregating those estimates.
- **The “bottom-up” approach consists of tracking the costs of different services,** i.e. “what is being spent”, and aggregating those expenses together in order to derive total expenditure figures.

<sup>3</sup> Four main subsectors: Rural Water, Rural Sanitation, Urban Water, Urban Sanitation, often each is controlled by a different ministry. Spend on hygiene education can come under the health ministry and/or Ministry of Education.

Data collection will need to be conducted based on a combination of the top-down and bottom-up approaches, so as to be in a position to answer two essential questions: “What is being spent?” and “Who are the main financiers of the sector?” A reconciliation of these two sets of data would also allow identifying any discrepancies between the two sets of figures.

Figure 9: Sources of finance for the WASH sector (Adapted from OECD 2010a)



## STAKEHOLDERS IN WASH – WHO’S WHO?

In the course of undertaking this study we have identified a large number of stakeholders in WASH. We have focused on key collective partnerships and major international players in WASH.

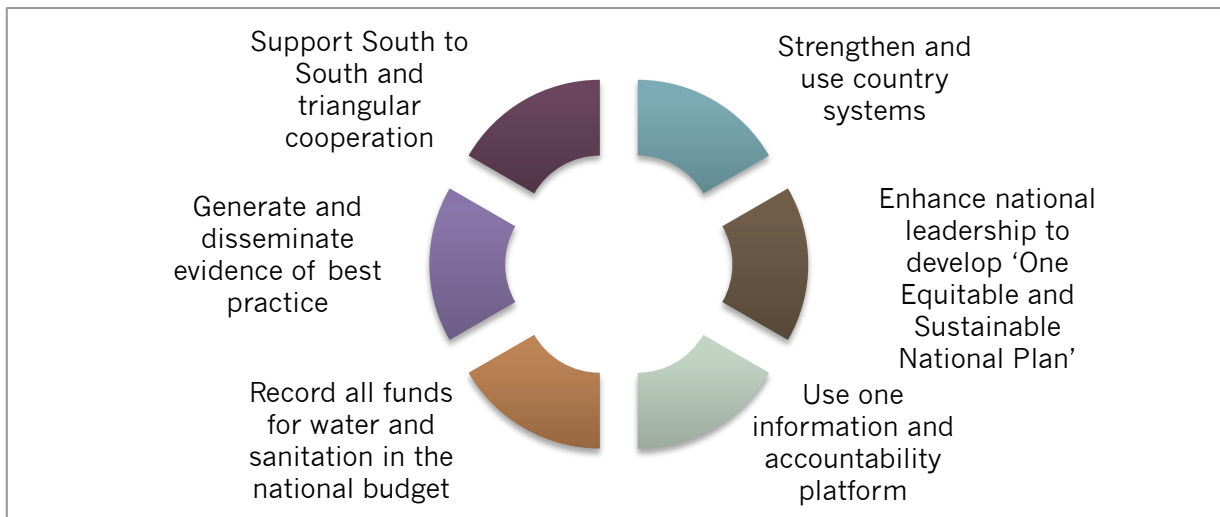
### Governments in the driving seat

Developing country governments are undoubtedly the most important partners. Above, we identified positive examples of government action, but government mis-guided action (poorly planned but powerful interventions, sometimes by vested interests) is one of the key reasons for failure, characterised by a lack of long-term vision and driven by short-term political imperatives.

The purpose of this study is not to analyse any specific country, but a few points should be noted.

- There is consensus that governments should lead in identifying the needs of the sector.
- Strong and independent oversight and regulation of the water and sanitation sector is required.
- Without adequate oversight and regulation, subsidies will not benefit the poorest (quite the opposite)
- Without government leadership, fragmented, unsustainable and often incompatible initiatives are likely.

Figure 10: Key behaviours affecting WASH delivery



### Stakeholder partnerships and emerging global platforms

#### i. Sanitation and Water for All (SWA)

The Sanitation and Water For All partnership is a forum for high-level political engagement and a mechanism to generate commitments from partners for WASH. It is driven by the recognition of the value of partnership between different stakeholders, although the aspiration is one of ‘joint action, not joint funding’.<sup>4</sup> The SWA Secretariat is hosted by UNICEF.

<sup>4</sup> According to WaterAid, also reiterated in conversations with DFID, Sweden, WSP and UNICEF.

ii. Water and Sanitation Program (WSP)

WSP is a multi-donor partnership and trust fund, with the World Bank as Trustee. WSP works directly with partner governments in developing countries, building capacity and supporting them to generate effective WASH sector plans and collaborative partnerships. WSP are particularly involved with analysing the economics of sanitation, and identifying opportunities for greater domestic private sector engagement in the sector. WSP has access to a strong pool of technical expertise and is in a position of influence.

iii. Water Sanitation and Supply Collaborative Council (WSSCC)

Based in Geneva and hosted by UNOPS, WSSCC is a multi-stakeholder partnership focussed on information sharing and lesson learning, but importantly also holds the Global Sanitation Fund (GSF). The GSF collects direct finance through donations and is responsible for disbursing funds at country level: disbursement at the end of 2013 was \$65m. They lead on the UN DSG's open defecation strategy and global efforts to improve menstrual hygiene.

iv. UN Water

UN Water was established in 2003 as a coordination mechanism for the UN family. There are 31 UN agencies that have an interest in the sector and 37 partners. UN Water's role is to complement and add value to existing programmes through better coordination, synergy and coherence. They have held the mandate to coordinate advice for the Open Working Group as they define the new SDGs and they are responsible for World Water Day and World Toilet Day.

v. WASH Cluster

In 2006 the Global WASH Cluster was created, alongside other clusters for key sectors operating in humanitarian situations e.g. education and health. The concept of the clusters is to enhance predictability, accountability and partnership, with a clear mandate for improving coordination in emergencies. The primary purpose of the WASH Cluster is to improve coordination of water and sanitation response. UNICEF is the lead agency and has generated operational guidance for the sector. This is an important forum for humanitarian stakeholders, though it should be noted that there are systemic problems in the divide between development and humanitarian aid across all sectors.

vi. Global Water Partnership (GWP)

The Global Water Partnership Organisation is a not for profit network with over 3000 partner organisations in 172 countries, with a secretariat hosted by the Government of Sweden. They focus on effective governance and management of water resources: trans-boundary, regional, basin, national and local – attempting to generate actions that are coherent and sustainable.

## **Multilateral Organisations**

vii. UNICEF

UNICEF is the lead UN Agency for the delivery of WASH programmes. UNICEF hosts the Secretariat for SWA, and is the lead agency for the WASH Cluster. The organisation boasts 500 WASH advisers and operates in the WASH sector in 100 countries. They manage a WASH portfolio of around US\$880m annually and hold a biennial SWA high-level event.

viii. World Bank - Water

The World Bank aims to help governments solve complex water development challenges through transformational finance, knowledge and innovation. The Water Global Practice brings together the knowledge and operational service delivery arms of the water family – from irrigation and water resource management, to water and sanitation service delivery - into one global practice. They are currently



responsible for the supervision of a WASH portfolio of approximately US\$21 billion in lending through 184 projects and about 200 active Knowledge Products, with the largest programmes in Water Supply and Sanitation followed by Irrigation and Water Resource Management. Annual lending to governments for WASH programmes is in the range of US\$4-5bn per year.

ix. IFC

The International Finance Corporation (IFC) is the largest global development institution focused on the private sector in developing countries. They provide around \$US222m in loans annually to the water and sanitation sector in public-private partnerships (PPP). They also have an advisory facility. Their programmes focus on understanding the market opportunity that exists at the base of the pyramid; identifying which business models work, where and how; analysing how more private finance can be attracted into the sector – supporting banks to invest in commercially viable opportunities; advising how to create an enabling business environment; and, knowledge management.

x. WHO

The World Health Organization co-chairs the Joint Monitoring Programme with UNICEF, collecting data on the sector and providing information for the community. They are the arbiters of health and sanitation standards; provide guidance on water quality standards and safety plans for household water and sanitation treatment.

Figure 11: Donors – Major ODA contributors to the WASH sector 2012

Asia Development Bank
European Commission
France
Germany
Islamic Development Bank
Japan
The Netherlands
The World Bank (IDA – soft loans),
USA
World Bank (IBRD – loans at market rate)

This list includes donors that invest in infrastructure on commercial terms as well as those that allocate grants to WASH.

### Civil Society Organisations

Many Civil Society Organisations work on WASH issues, but their degree of engagement varies considerably from local programme work as part of poverty reduction or health strategies, to taking on WASH as a major organisational priority. Oshun spoke to representatives of the following organisations in the course of this study.

- Oxfam
- Plan International
- Water for People/PSI
- Water.org
- Water Aid

## Private Sector

The private sector engages in WASH in many parts of the value chain, with a few entities also becoming involved in the global advocacy and innovation.

In the value chain, entry points for the private sector include, but are not limited to:

- Direct service provision (providing water, sanitation and hygiene services to specific communities)
- Social marketing and behaviour change communication
- Development of markets
- Logistics and supply chain expertise
- Technological innovation and the development of new products
- Influencing policy and the regulatory environment
- Advocacy for increased priority for WASH with governments, donors, civil society and other private sector actor
- Improving water, sanitation and hygiene in the workplace

There is little consolidated literature that describes the benefits, risks, challenges and opportunities to private sector entities that come from engagement in the WASH sector although it is evident these could fall in to a number of categories:

- Improved workforce productivity (through impacts on health, education, absenteeism etc.)
- Development of new markets for wash products
- Contribution to a vibrant local economy
- Credibility and "social license" (i.e. legitimacy to sell their products or operate in a country)

The UN Secretary General has gained agreement with over 130 organisations who have signed the CEO Water Mandate that they will analyse the direct usage of water by their businesses; seek greater efficiencies in water usage in their supply chain and watershed management (where appropriate); work towards greater collective action with CSOs, national and local governments and other stakeholders; contribute inputs and recommendations to develop improved policy and regulatory environments; endeavour to understand and improve collaboration with communities; and, increase transparency. The CEO Water Mandate is not legally binding, and UNICEF and the UN Foundation are now working to try and move the Mandate to greater commitment, action and delivery. (see above) All parties recognise the potential for the private sector to be influential although finding common interests between private sector operators in line with business objectives may present a challenge.

## Other stakeholders

There are a multitude of other stakeholders engaged in research such as CGIAR, ODI, Stockholm Institute for Water and Sanitation as well as a variety of environment and water resource management organisations, Annex D has a list of useful links to organisations and websites. The point to note is that the sector has a proliferation of different organisations engaged at multiple levels, both directly and indirectly. This makes coordination a great challenge but not impossible if a 'critical mass' can be built around one core framework or platform.

## INNOVATIVE FINANCE - LESSONS FROM HEALTH

Over the last 15 years development practitioners have attempted to bring aspects of private sector finance into the development space with varying degrees of success.

The High Level Task Force for Innovative Financing for Health, chaired by Former UK Prime Minister Gordon Brown, analysed many existing mechanisms and a large number of ideas that had potential to generate new sources of revenue for the health sector. This study was used by numerous other sector specialists to attempt to identify ways to generate resources for their sectors. Often however they have approached the problem from the perspective of identifying a potential pool of resources, rather than from thinking about a clearly identified problem, and the *type* of resources required to solve it. Since all innovative financing vehicles are underpinned by an economic cost/benefit analysis, the nature of the problem to be solved will have a direct bearing on the type of investment vehicle that could be appropriate and the case for investment that will be required to deliver it.

Successful attempts to generate new financing vehicles in the development space have almost always involved many stakeholders. For example, the Global Health Investment Fund has so far raised \$108m and involved the Gates Foundation as an underwriter, JP Morgan as Fund Manager and a host of pharmaceutical companies, private foundations, donors and high-net-worth individuals. The fund was attractive as it aims to generate a return for investors, and any losses were underwritten by the Gates Foundation – providing a win-win for social impact investors in particular.

Vehicles, such as the International Financing Facility for Immunisation (IFFIm), conceived and supported by Gordon Brown when he was Chancellor, aims to address the short term financing needs of vaccination by enabling government spread their financing commitments. Spreading the financial load can be attractive to front load vaccination, or enable programmes to continue in straitened times. The fund has so far raised \$5bn from capital markets, backed by a \$6.5bn 23 year financing commitment from donors.

These are some questions that may be helpful in identifying potential sources of financing, including grant financing, with an early attempt to identify implications for the WASH sector.

### 1. What is the problem or ‘market failure’ that financing is trying to solve?

In the context of WASH there are many failures at different levels in the value chain, not all of them financial or economic:

#### Macro (economy wide) level

- Uncoordinated sector planning and delivery
- Responsibilities for WASH management fragmented across government ministries and multiple levels: central, to regional to municipal government
- Infrastructure challenges for large-scale urban and peri-urban environments
- Sustainability of service delivery
- Context-specific environmental challenges

#### Micro (local) level

- Costs associated with reaching marginalised communities especially in rural areas
- Failure to invest in sanitation and find local sustainable solutions
- Lack of domestic private sector to maintain systems
- No pipeline of investible opportunities

#### Household level

- Prohibitive connection costs for water and / or sanitation at household and community level
- Lack of effective hygiene education and behaviour change strategy

**Only by agreeing collectively on the problem, can we move to the next stage of thinking about the solution, and funding it.**

### **2. What is the scale of the financial requirement?**

It is rare that finance alone will solve a problem. Though it will undoubtedly be part of the solution, additional factors related to planning, coordination, policy environments, and the legacy of poor decision – making will need to be addressed. Generating a new financing vehicle will require the support of many stakeholders to be successful.

Once the problem has been identified, and the financial element described, the next step is to understand the financial requirement, the ‘gap’ as shown in Figure 8, and the *type* of capital required: e.g. investment capital, loans, recurrent costs etc. Investment in WASH is ‘lumpy’, requiring high up-front expense and long-term, but less expensive, continual maintenance and service delivery costs. The upfront costs are so high that they will need to be borne in large part by governments, which in the context of developing countries will likely mean that these governments access concessionary or non-concessional loans through World Bank financing facilities. These facilities cover all sectors, so WASH will be in direct competition with other sectors requiring investment – e.g. electricity generation, roads, agriculture etc.

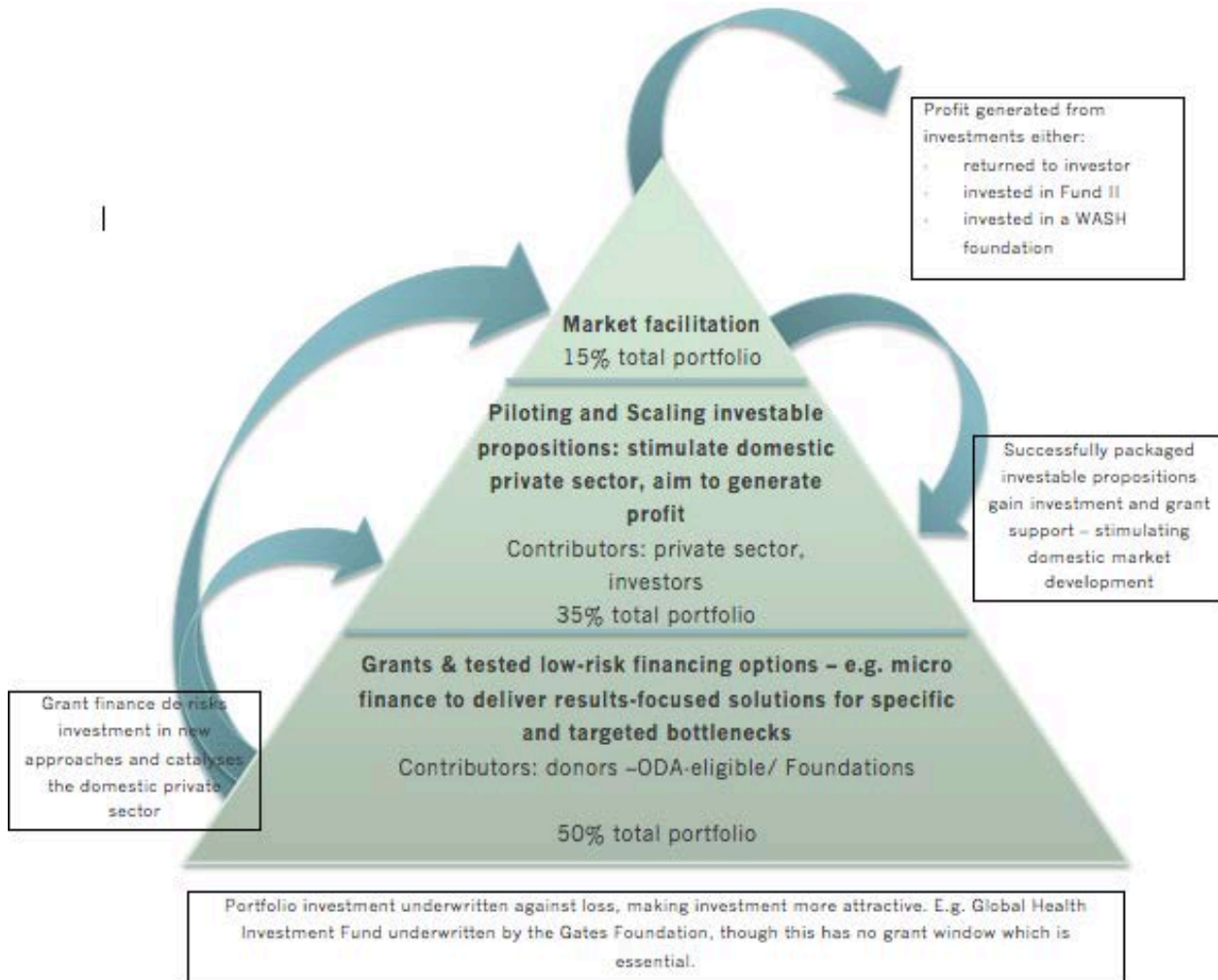
### **3. What is the potential return on investment?**

It is now widely accepted that water should not be a free resource but equity of access and pricing must ensure that the poorest are not disproportionately paying more for their water than the better off. Pricing strategies and subsidies need to address the needs of the poorest, while government and private sector partners are also able to achieve returns sufficient to cover running costs.

The ability to recover the cost of capital and principal investment opens wider possibilities for accessing different types of finance. Depending on the nature of problem, the financial requirement will vary. There may be a need for grant finance to de-risk an investment, or low cost investment capital, which pays minimal interest, but does return the principal, or a blended investment.

It should be possible to structure investment in multiple windows to ensure balanced risk over the totality of the portfolio, perhaps allowing for a ‘market facilitation’ window where viable investable propositions can be packaged and made ready from investors (See Figure 10 below). Several interviewees thought that such an approach merits further consideration especially as the pipeline for investible transaction is virtually non-existent.

Figure 12: Example of portfolio approach for a financing facility for WASH



#### 4. How will the funds be managed?

The question of how resources channelled to any new financing mechanism will be managed will arise early in the process. It is quite possible (even likely) that there will be competition to house or ‘own’ such a fund. These are some options for discussion:

- Multi-donor trust fund (MDTF): there are several multinational agencies that have the ability to manage these funds such as the World Bank and UNICEF.
- Institutions with technical expertise and fiduciary risk management capability, that could manage a financing vehicle or add a new window in an existing Fund: WSP, UN Water, WSSCC and others like SWA that could do more with access to a pool of resources to allocate.
- A new fund set up managed by an investment bank as fund manager – similar examples include the Global Health Innovation Fund, managed by JP Morgan
- A new fund managed by an independent institution based on models such as GAVI, the Global Fund, or Foundations such as CIFF or the Gates Foundation.

## 5. Who will be responsible for allocating resources?

Whichever type of mechanism is chosen to manage the fund will to an extent determine the governance and decision making arrangements that will need to be put in place. Governance arrangements can determine the success or failure of the mechanism – internalising support for fund through the Board can lend credibility and support in many ways.

## 6. A note on ‘innovation’

A degree of ‘innovation fatigue’ has crept into the development space. In this sector many of those interviewed commented that innovation is not required. Market facilitation is absent, so although intuitively there are profitable propositions in the sector, especially within domestic markets the finance to generate these deals is not there, and the risk to individual entrepreneurs is too great. Weakness in capacity needs addressing at multiple levels, and a better understanding of the market is essential. For example, it could be hypothesised that one reason that people don’t use toilets is that the ‘product’ (i.e. toilet slabs) are not fit-for-purpose. People don’t like it, so they don’t use it. Knowing your market is essential to success.

### Box 4: Examples of Innovative Financing Vehicles in WASH

**Concern Universal** – Piloting work raising resources for the WASH sector against carbon offset.

**Emerging Africa Infrastructure Fund:** initiated by the Private Sector Infrastructure Development Group (PIDG), to address scarcity in long-term debt for significant private sector-based infrastructure development. Aim is to create appropriate financing solutions to meet the challenges of private sector financing including where possible facilitation of local capital markets involvement.

**International Finance Corporation:** has developed small scale PPPs in Uganda working with government in small towns – payment on delivery of service. In South Sudan there is an unregulated market with small entrepreneurs, providing expensive water. IFC aims to transition to good service at affordable prices but no transaction completed yet. IFC recognises there is a real challenge of scalability.

**K-Rep Bank:** Maji ni Maisha (“Water is life”) program in Kenya is supported by WSP and has demonstrated that investing in small-scale community water projects can be commercially attractive. Professional support from the private sector helps to ensure that systems remain financially viable. IFC has begun working with WSP to support the scaling-up of the program in Kenya and elsewhere.

**Swedish SIDA:** have a suite of **guarantee and loan** tools, which they have used in other sectors and are working to identify how they might be used in WASH.

**UNICEF** has commissioned a report on innovative finance for WASH, which has just been completed. Uses **revolving funds** for emergency financing.

**Water.org:** Clearly identified a problem where water connection exists, but individual households cannot afford to connect. Water.org works through local micro-finance institutions to provide small loans, 50% of which are repayable once the connection has been made. Works well for those who can afford to take out loans – which liberates grant resources for those at the bottom of the pyramid. Piloting a **debt fund for loan capital** this year.

**World Bank:** Have undertaken some **results-based financing** projects and, through WSP, focused on **utility bonds** using the balance sheet of utility companies to lever capital from the bond market.

## TOWARDS A GLOBAL INVESTMENT FUND FOR WATER

The process of agreeing and implementing new global development goals for 2016-2030 (the SDGs) presents an unprecedented opportunity to scale up efforts to end water poverty.

As has often been said – water is life, sanitation is dignity. They are closely linked in the WASH value chain and are equally vital to progress in health, education systems and economic development.

However investment in WASH must be scaled up considerably in order to deliver services to the 663 million who still lack access to water and the 2.4 billion who don't use a toilet. The MDG process from 2000-2015 has shown that investments framed by coherent policies and strong government leadership are much more likely to deliver progress than ad hoc or solely market-driven approaches.

Successful policy making and investment will therefore require not just funds, but also a willingness by political leaders to use their convening power to bring together key actors from governments, the private sector and civil society.

In this paper, we present an innovative financing concept for a *Global Investment Fund for Water*, that we hope could give added impetus to a global effort and be situated firmly within a renewed global WASH strategy.

As mentioned through this paper, a GIFFW funded by on a one cent per litre levy on bottled water has the potential to raise as much as \$3 billion per annum. This is not nearly enough to meet the total funding gap to deliver water and sanitation to all, estimated at an incremental \$27 billion per annum, but it could become a vital catalyst and focus for further investment.

Also essential to this concept is the notion of equity, or ensuring that the poor don't pay more than those who are better off. Any progress on the GIFFW concept should apply best practices and principles to ensure that the fund remains focused on those at the very bottom of the development ladder.

The GIFFW is unusual in that a source of funding has been identified, before agreement on the problem to be solved and the scale of resources needed. We therefore hope that leaders in the WASH, retail and bottled water sectors would like to work with us to flesh out investment needs and to see how the bottled water producers and retailers can be incentivised to participate. Governance of the fund will also have a major bearing on its success, whether through an existing mechanism or a new investment vehicle.

In preparing this paper, the authors have sought feedback from a range of stakeholders in government, civil society and the private sector. It has been very heartening that many of those individuals have welcomed this proposal and encouraged us to take the idea to the next stage.

We therefore actively invite comment, ideas and partnership to further this proposal.

Thank you for your interest in a *Global Investment Fund for Water* and please don't hesitate to get in touch.

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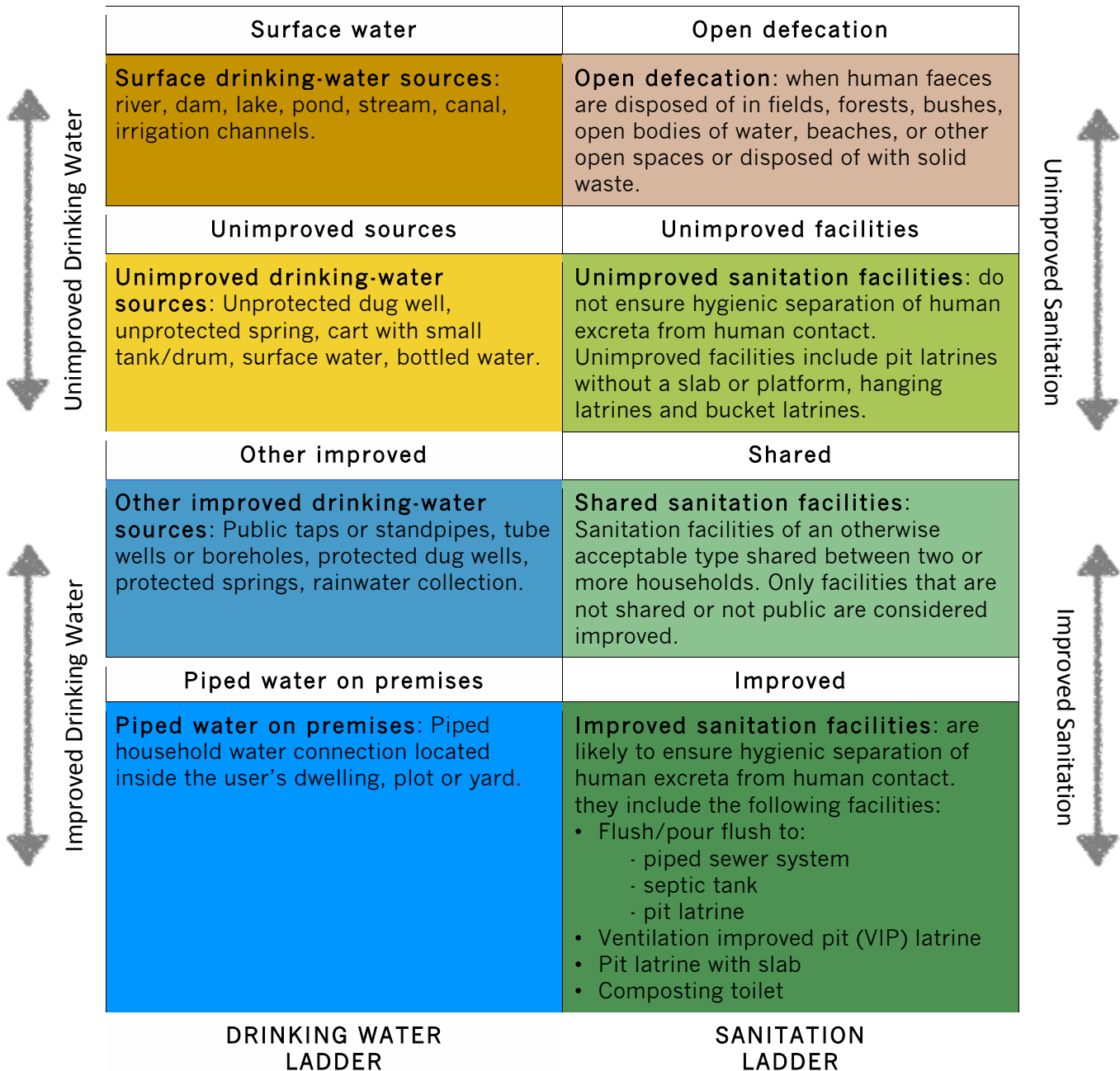
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## ANNEX A: DRINKING WATER AND SANITATION LADDERS

(Source: WHO, UNICEF Joint Monitoring Programme for Water Supply and Sanitation)



## Improved and unimproved water and sanitation facilities

The Joint Monitoring Programme has established a standard set of drinking-water and sanitation categories that are used for monitoring purposes. An "improved" drinking-water source is one that, by the nature of its construction and when properly used, adequately protects the source from outside contamination, particularly faecal matter. An "improved" sanitation facility is one that hygienically separates human excreta from human contact. The definitions used by the JMP are often different from those used by national governments. Estimates in JMP reports may therefore differ from national estimates.

### "Improved" sources of drinking water:

- Piped water into dwelling
- Piped water to yard/plot
- Public tap or standpipe
- Tubewell or borehole
- Protected dug well
- Protected spring
- Rainwater

### "Unimproved" sources of drinking water:

- Unprotected spring
- Unprotected dug well
- Cart with small tank/drum
- Tanker-truck
- Surface water
- Bottled water

### "Improved" sanitation:

- Flush toilet
- Piped sewer system
- Septic tank
- Flush/pour flush to pit latrine
- Ventilated improved pit latrine
- Pit latrine with slab
- Composting toilet

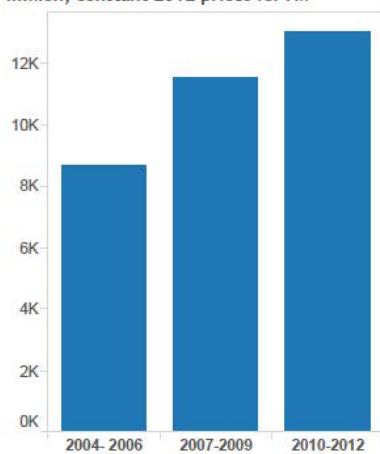
### "Unimproved" sanitation:

- Flush/pour flush to elsewhere
- Pit latrine without slab
- Bucket
- Hanging toilet or hanging latrine
- No facilities or bush or field

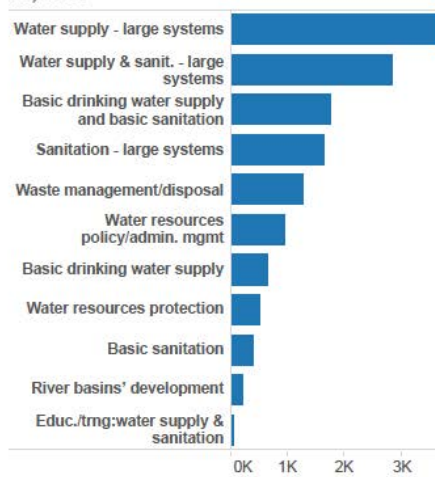
## ANNEX B: DATA ON KEY DONORS' SPEND IN WASH (2012)

Recipient: All  
Year: 2012

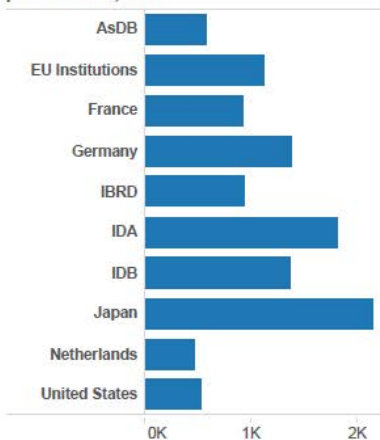
**Trends in Water and sanitation-related aid**  
3-year annual averages, commitments, USD million, constant 2012 prices for All



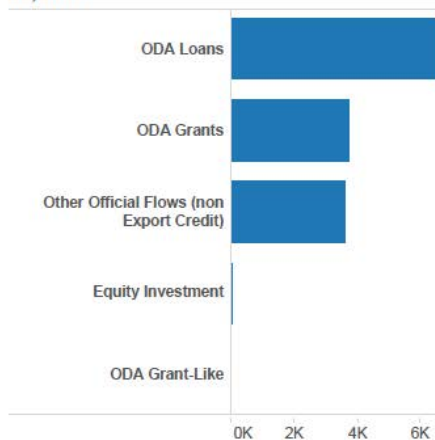
**Water and sanitation-related aid by sector**  
commitments, USD million, constant 2012 prices for All, 2012



**Water and sanitation-related aid by OECD DAC members**  
commitments, USD million, constant 2012 prices for All, 2012



**Water and sanitation-related aid by instrument**  
commitments, USD million, constant 2012 prices for All, 2012



Source: OECD DAC CRS <http://stats.oecd.org/Index.aspx?QueryId=58195>

## ANNEX C: INTERVIEW LIST

### **Multi-stakeholder initiatives**

WSP – World Bank

SWA – Sanitation and Water for All Partnership

### **CSOs**

Oxfam

Plan International

WaterAid

WaterAid

Water.org

Water for People/PSI

UN Foundation

UNICEF

UN Water

World Bank Water

### **Donors**

Sweden - SIDA

UK-DFID

### **Experts**

Lions Head Global Partners

### **Private Sector Partners**

Zenith International

IDG

Starbucks

Tesco

Ocado

The Co-Operative

Aramark

World Duty Free

## ANNEX D: USEFUL WEBSITE LINKS

[AquaFed](#), the International Federation of Private Water Operators  
[Australia – DFAT - Water pages](#)  
[BPD Water and Sanitation](#): a worldwide network of partners involving government, donors, business and civil society  
[DFID Environment, Water and Sanitation pages](#)  
[EHP](#): USAID's Environmental Health Project  
[EPA](#): US Environmental Protection Agency ([Office of Water](#))  
[EUWI](#): The EU Water Initiative  
[FAO](#): United Nations Food and Agriculture Organization  
[GWP](#): Global Water Partnership  
[IFC](#) International Finance Corporation, part of the World Bank Group  
[IWA](#): International Water Association  
[International Office for Water](#)  
[IRC](#): International Water and Sanitation Centre. Host of WASH in Schools and publishes the newsletter Notes and News.  
[JMP](#) : The website of the WHO/UNICEF Joint Monitoring Programme (JMP) for Water and Sanitation - access a wealth of information on populations' use of improved drinking water and sanitation, and the monitoring of the water and sanitation target of MDG 7  
[LSHT&M](#): The London School of Hygiene and Tropical Medicine (host of the [WELL Resource Centre](#))  
[MWA](#): Millennium Water Alliance  
[Millennium Development Goals \(MDGs Web Site, Millennium Project, Task Force on Water and Sanitation\)](#)  
[RWSN](#): Rural Water Supply Network (formerly HTN - hosted by [SKAT](#))  
[SANDEC](#): Department for Water and Sanitation in Developing Countries at the Swiss Federal Institute for Environmental Science and Technology  
[Sanitation and Water for All \(SWA\)](#)  
[SKAT](#): Swiss Centre for Development Cooperation in Technology and Management (host of [RWSN](#))  
[UN-DESA](#): United Nations Department of Economic and Social Affairs ([Division for Sustainable Development](#))  
[UNDP](#): United Nations Development Programme [GoAL WaSH Programme](#)  
[UNEP](#): United Nations Environment Programme ([GEMS/Water Programme, Freshwater](#))  
[UNESCO](#): United Nations Educational, Scientific and Cultural Organization ([water portal](#))  
[UN Water](#)  
[WATERAID](#): UK water NGO  
[WSP](#): Water and Sanitation Program (formerly known as the UNDP-World Bank Water and Sanitation Program)  
[WSSCC](#): Water Supply and Sanitation Collaborative Council  
[WEDC](#): Water, Engineering and Development Centre  
[WELL](#): resource centre for promoting environmental health in developing countries (hosted by the London School of Hygiene and Tropical Medicine [LSHT&M](#))  
[WHO](#): World Health Organization ([Water, Sanitation and Health](#))  
[WMO](#): World Meteorological Organization ([Hydrology and Water Resources Programme](#))  
[World Bank \(Water Supply and Sanitation\)](#)  
[World Resources Institute](#)  
[World Water Council](#)