This material is shared as a learning resource to promote awareness and good practice in the provision, use and management of water resources for sustainable social and economic development and maintenance of African ecosystems.

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Session: A paradigm shift in pro-poor financing for water and sanitation in Africa
AGENDA

Welcome

GIZ: Mobilizing additional funds for pro-poor water services – study results

WB – Revisiting subsidies

Roundtable discussions

Conclusion
Mobilizing additional funds for pro-poor water services
Katrin Gronemeier, 29 Oct 2018

Research team

Dr. Tanvi Nagpal, School of Advanced International Studies (SAIS) – JHU
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Chloe Hauenstein, SAIS JHU
Limitations

- Study focused only on water (not sanitation) but mechanisms are also applicable to sanitation.
- No detailed discussion of tariffs but recognize that ultimate goal of full cost recovery through tariff revenue is worth pursuing.
- No detailed discussion of utility governance but recognize this is critical. Ideas in study are supportive of this goal and complementary to efforts.

Guiding question

Where, outside of tariffs, can developing country governments and development partners raise additional resources and test new models to sustainably finance safely managed water services in line with SDG ambitions?
The financing gap is huge


Source: Goksu et al 2017 Easing the Transition to Commercial Finance, The World Bank
As many utilities are not sustainably financed, public funds will continue to play an important role.
The study looked at seven mechanisms…

1. Philanthropy-led Global Funds
2. Global Solidarity Levies
3. Land Value Capture
4. Revolving Funds
5. Public-Private Integrated Partnerships (including service delivery)
6. Impact Investing (through social enterprise model)
7. Fund of Funds
...and examined three in more detail

1. Philanthropy-led Global Funds
2. Global Solidarity Levies
3. Land Value Capture
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5. Public-Private Integrated Partnerships (including service delivery)
6. Impact Investing (through social enterprise model)
7. Fund of Funds
Global Funds - Philanthropy-Led Financing (GAVI)

FUNDAMENTALS OF GAVI’S FUNDING MODEL

- **Donor Base**
  - Strong donor momentum
  - 2011: US$ 1.068bn
  - 2012: US$ 1.567bn
  - 2013: US$ 1.756bn
  - 2014: US$ 1.964bn
  - 2015: US$ 2.100bn

- **Co-financing**
  - More co-financing
  - 2010: US$ 32m
  - 2011: US$ 50m
  - 2012: US$ 64m
  - 2013: US$ 84m
  - 2014: US$ 100m

- **Market Shaping**
  - Lower vaccine prices, more vaccines
  - 2010: US$ 25
  - 2011: US$ 22

REAL WORLD OUTCOMES

- **Healthier Populations**
  - More vaccine introductions, healthier populations
  - 2010: 69
  - 2011: 153

- **Stronger Economies**
  - Increase in average gross national income
  - 2001: US$ 677
  - 2010: US$ 1,699

- **Sustainable Immunisation Programmes**
  - More countries graduate from Gavi support
  - 2014: 7.7m
  - 2016: 46.6m

Source: GAVI Progress Report 2014
Global Funds - Philanthropy-Led Financing Innovations & Opportunities

**Innovation of Funding Type**

- Emphasis on universal access (regardless of ability to pay)
- Agreed upon measures of health impacts and externalities
- Focus on fundraising/disbursement, not implementation
- Use of commercial finance in the form of bonds
- Long replenishment cycles
- Demand-based funding

**Implications for Water Sector**

- Need for agreed upon outcome measures
- Distinguish from existing efforts and avoid duplication
- Focus on raising additional resources, reduce set-up costs
- Create single window for distributing resources
- Need mechanism to allocate and prioritize grants
Global Solidarity Levies

UNITAID Airline Levy

2016: US$ 188 million
2015: US$ 186 million
2014: US$ 249 million
2013: US$ 280 million
2012: US$ 276 million

1 Cent Water levy

Brands pledge micro-donations
Consumers contribute by choosing those bottles
Everyone can play a part

Support WASH projects
Global Solidarity Levies
Innovations & Opportunities

Innovation of Funding Type

- Non-regressive
- Automatic, no political approvals
- Allows for longer term planning
- Can create solidarity around a single issue
- Positive externalities
- Raises substantial resources
- Effective source of local revenue

Implications for Water Sector

- Requires a coordinating body- could be existing mechanism
- Need group of leading governments to set example
- Different taxable goods/services – a global tax on water bottles could generate ~$5bn per year
- Look beyond largest bottlers to other activities - positive externalities by taxing extensive water users
3 Land Value Capture

Land value can increase from the factors below:

- Higher land values
- Improved service
- Infrastructure / service investment

Land value capture in action:

- Kansas City streetcar
- New Delhi metro
- Casablanca water

Streetcar by Rihards Gromuls; India Gate by Grégory Montigny; and Water by Gregor Cresnar from the Noun Project.
3

Land Value Capture
Innovations & Opportunities

Innovation of Funding Type

- Using part of land price appreciation due to public investments in infrastructure
- Not regressive -- taxes non-earned profits/rents
- Widely used in mass transit CapEx and OpEx
- Source of locally-earned revenue for municipal governments
- New instrument for low-income countries

Implications for Water Sector

- LVC could be used as part of larger infrastructure improvement integrating multiple services, including water
- Revenue would have to be ring-fenced for water services
- Requires established local property markets and local government capacity
Want to know more? Take home a copy of the study report

...or download PDF


...and join the roundtable later
Teaser: Re-igniting the subsidies debate

- The case for investing in sanitation is undebated, but rapid population growth, especially in urban areas, are thwarting progress.
- Subsidies for household toilets, have in the past, been considered a ‘no-go’, but it’s time to re-ignite the debate.
- GIZ is supporting governments in implementing household subsidy schemes, e.g. in Kenya, Burkina Faso, Burundi.
- GIZ is currently working on a document summarizing GIZ’s implementation experience and the case for household subsidies.
- Session at AfricaSan organized by World Bank and GIZ will cover details.
Revisiting Subsidies for Water and Sanitation Services

Luis ANDRES, Lead Economist
October 29, 2018
1. Setting the Stage

- Limited resources available to governments, and the need to use those resources to attain the maximum benefit possible.

- Lack of common framework and language to anchor the issues in subsidies. This should will include: a) what is a subsidy; b) the different goals and whether subsidies can be effective in attaining them; c) a typology of subsidies (e.g. direct subsidies, implicit subsidies, cross-subsidies, etc.); and d) the purpose

- Subsidies are a subset of funding flows between governments, utilities, and customers, and occur when an entity pays less for a product or service than it costs to produce the product or service. Under this broad definition, subsidies may take the form of explicit transfers between two entities or implicit transfers through underpriced products or services.

<table>
<thead>
<tr>
<th>From/To</th>
<th>Government</th>
<th>Utility</th>
<th>User</th>
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<tbody>
<tr>
<td>Government</td>
<td>Inter-governmental fiscal transfers</td>
<td>Subsidies to supply (infrastructure, O&amp;M, capacity building)</td>
<td>Direct subsidies to demand (income support, vouchers, etc.)</td>
</tr>
<tr>
<td>Utility</td>
<td>Taxes, licensing fees, revenues (if not ring-fenced)</td>
<td>Cross-subsidy</td>
<td>Direct subsidies from own profit, implicit subsidies (underpriced services and free or below cost connections)</td>
</tr>
<tr>
<td>User</td>
<td>Taxes</td>
<td>Usage/service fees (tariffs), connection fees</td>
<td>Cross-subsidy</td>
</tr>
</tbody>
</table>
2. The Current Water and Sanitation Subsidy Challenge

- Pervasive...
- ... Expensive...
- ... Non-transparent...
- ... Distortive...
- ... Poorly targeted
3. Designing Efficient Subsidies that Facilitate the Achievement of Service Goals (1/2)

- **Goal:** support expansion (to reach economies of scale), enhance affordability (while reducing distortions in supply or consumption), encourage socially optimal consumption, reduce general deficits for the utility or political jurisdictions, maximize positive externalities in public health, promote environmental protection, and economic productivity, etc.:

- As a public good with significant externalities, **some magnitude of subsidy may be desirable**....

- Rethinking **affordability**

- **Cross-subsidies and service efficiency:** The elimination of cross subsidies is generally expected to promote economic efficiency and transparency.
3. Designing Efficient Subsidies that Facilitate the Achievement of Service Goals (2/2)

✔ **Targeted consumption subsidies**: This research work reviews IBTs, geographic-based subsidies, means-tested subsidies, etc., and will discuss the strengths and weaknesses of each approach.

✔ **CAPEX subsidies**: This research work takes stock of efforts to mitigate the burden of initial one-time construction or connection charges designed to expand access to services.

✔ **Intra-household subsidies**: Although governments tend to heavily subsidize centralized sewerage systems and water supply networks, which disproportionately benefit the non-poor, they tend to insist upon a no subsidies approach to intra-household CAPEX, including onsite fecal sludge management technologies.

✔ **Subsidies in CAPEX financing**: Implicit and explicit subsidies provided to service providers when they receive financing at concessional terms.
Revisiting Affordability

So far: Affordability if \( \frac{\text{Expenditure (WSS)}}{\text{Total Expenditure}} < 5\% \) but… affordability or (un)fairness proxy???

- How we measure poverty?

\[ X \times \$ = P_{\text{overty Line}} \]

- What will the equivalent for water?

\[ X \times \$ / 5\% = W_{\text{ater P overty Line}} \]
4. Designing an effective and efficient subsidy reform package

The political economy of water and sanitation subsidies: This section presents a generalized analysis of the political economy of water and sanitation subsidies to better understand the barriers and opportunities for reform.

Communications strategies for subsidy reform: A well-designed communications strategy can lower the political cost of reform and create the conditions for sustainable water subsidy reforms in a country.

Beyond subsidies… – strategies for offsetting losses
- … reducing costs through improved operations and maintenance, improved staff productivity, systems efficiency improvements, etc.
- … technological innovations…
- … demand side management…
- … matching billing and payment to the needs of the poor: Investigate use of innovative financial mechanisms and technologies, which can better adapt to the unpredictability of income and liquidity constraints.
- … making use of social safety nets: Given that subsidy reform is likely to result in increased water pricing, this section will discuss the potential need for expanded social safety nets to support poor households in the short-term.
Thank you! Merci!

Luis ANDRES, Lead Economist
Landres@WorldBank.org
AGENDA

- Welcome
- GIZ: Mobilizing additional funds for pro-poor water services – study results
- WB – Revisiting subsidies
- GIZ – Implementing household toilet subsidies
- Roundtable discussions
- Conclusion
Roundtable discussions

✓ 1 facilitator per table

✓ 3 groups with 3 different topics

✓ Pin answers on the boards

✓ Present in the plenary
<table>
<thead>
<tr>
<th>Stations &amp; Facilitator</th>
<th>Topic</th>
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</table>
| **Station 1: Subsidies**  
Luis Andres, WB | • What are the most relevant issues for Africa in the context of Subsidies?  
• Is there a political (an technical) will for a subsidy reform in Africa? |
| **Station 2: Solidarity levies**  
Katrin Gronemeier, GIZ | • Which of the presented mechanisms (global philanthropy-led funds, solidarity levies, land-value capture) are already being applied in your country (maybe in other sectors)?  
• Which mechanisms yield the most potential to increase resources for water & sanitation? |
Conclusion

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