Policy Brief #3

Financing Wastewater Management and Sanitation

December 2018
The Sustainable Development Goals (SDGs) set new and ambitious targets to achieve greater global health, economic and environmental benefits. These include targets for water, sanitation and hygiene, and in order to meet these targets countries will need to make major investments into the relevant sectors. Estimates by the African Development Bank show that Africa needs **US$11 billion** annually to achieve **SDG6** – ensuring that everyone has access to potable water and proper sanitation.

Additional investments will need to be made to meet other targets under SDG 6 as well as to provide climate resilient technologies. Inadequate and unsustainable levels of funding have been identified as a major limitation to achieving global and regional targets for access to basic water supply and sanitation services. Even where funding for capital expenditures is secured, it is critical to note that funding for maintenance is not always regularly available, leaving available infrastructure to crumble.

Investments in water and sanitation tend to focus on capital expenditure – the construction of physical infrastructure, such as sedimentation or septic tanks, pumps, pipes, and latrines. The funding mix for wastewater and sanitation infrastructure is likely to change following calls from the United Nations for countries to “radically” increase investments in water and sanitation infrastructure. Calls are increasingly being made for more attention and investment in non-capital expenditure – policies, laws, institutions, human resources, operations, maintenance, and monitoring and evaluation. Traditionally, financing in these areas has been minimal despite it having been shown that this leads to poor service delivery and inadequate coverage.

Existing financial resources will have to be used more efficiently and efforts increased to identify and attract new sources of funding. This is especially important in Africa where a major focus is still to achieve access to basic infrastructure that can provide safe and reliable services.
Sources of Financing

The three major sources of financing for wastewater management and sanitation provision are taxes, tariffs and transfers. Current financing from these sources is not sufficient to meet national targets for most countries in Africa, with vulnerable groups continuing to be the most affected. The sources of funding differ between rural and urban areas, with the latter being funded largely through transfers. New sources of finance are needed, as well as better use of existing finances so as to cover the full cost of infrastructure and services for sustainable wastewater management and sanitation services.

Taxes

Taxes from individuals and businesses are a source of revenue for governments which gives them the ability to provide services at national and local levels. It is recognized globally that domestic public resources are the primary source of financing for sustainable service delivery for wastewater and sanitation in developing countries, and it is through taxation that high-income countries have been able to achieve universal access to sanitation.

Although financing to the sector from national budgets is still insufficient for universal access, government allocation and spending for wastewater, sanitation and hygiene are increasing in developing countries. Progress in mainly middle-income countries saw domestic public and private finance more than double between 2002 and 2011. Though insufficient, public finance also doubled in low-income countries.

National budgets, which are largely funded through taxes, do not cater enough for wastewater management and sanitation provision. Through the N’gor Declaration, African countries committed 0.5% of their Gross Domestic Product to go towards sanitation and hygiene. Actual allocations remain much lower in the majority of countries, ranging from 0.01% to 0.25% of GDP.

Globally 80 per cent of countries do not have sufficient financing to meet national water, sanitation and hygiene targets.

Tariffs

These are funds paid by households, businesses and governments for the water and sanitation services they use. Tariffs generally pay for minor maintenance work and do not ordinarily meet the cost of major maintenance or replacements or salaries of staff of service providers. However, tariffs in many low-income countries are set so low that they are not even able to meet the costs of minor maintenance. Most households in developing countries, particularly those in low-income areas and in poor communities, would not be able to pay tariffs if they reflected the full cost service provision. This is of particular concern considering that 33 per cent of countries surveyed in the most recent UN-Water survey indicated that two-thirds of their sanitation and hygiene financing comes from household contributions. For Africa this implies that countries cannot fully meet the cost of sanitation and hygiene.

In over 50 per cent of countries, household tariffs do not cover operation and maintenance costs. This results in lack of repair and service failure.

Transfers

This is funding that is provided by external aid agencies and includes overseas aid, remittances and loans at market interest rates. There has been a general cut in global aid contributions. For water and sanitation, there has been a steady decline in recent times in external aid commitments from 6.2 per cent to 3.8 per cent from 2012 to 2015. Contributions to Sub-Saharan Africa decreased from 3.8 billion to 1.7 billion USD during the period 2012 to 2015. While multi-donor trust funds have been introduced in sectors such as health and education as a more effective financing model, their uptake in the wastewater and sanitation sector has been slower.
The fact that there is not enough funding for sanitation across much of Africa, the situation is not helped by the lack of capacity for planning, budgeting and financial reporting. Among other pronouncements, Africa’s commitments to financing sanitation and hygiene, and wastewater management are covered in the 2008 Sharm El Sheik Declaration to increase domestic funding; the 2008 eThekwini Declaration to allocate 0.5% of GDP to sanitation and hygiene; and the 2003 Ministerial Declaration to allocate 5% of national budgets to water and sanitation.

Efforts such as TrackFin (Tracking Financing to sanitation and hygiene) are helping bring accountability in financing of sanitation and hygiene by providing national benchmarking, cross-country comparisons and providing the evidence basis for planning and monitoring sanitation and hygiene services and systems.

Financing for sanitation and hygiene will yield the expected results when backed by the correct policies and political will. The African Ministerial Conference on Water (AMCOW) is central to setting the policy agenda, including through its initiative for water, sanitation and hygiene.

### The African Water Facility

Besides providing the policy backing, AMCOW supports the African Water Facility, which is hosted and managed by the African Development Bank. The facility supports countries to mobilize financing for water development activities by assisting them to develop projects that are viable and can be implemented effectively. While the current 10-year strategy for the African Water Facility broadly targets water, it also specifically mentions support for sanitation. The Africa Urban Sanitation Investment Fund supports African countries to meet the SDG targets in urban sanitation.

Through grants and technical assistance, the African Water Facility has supported 104 water projects in 52 countries.

### Africa’s Initiatives for Financing Water and Sanitation

**Africa’s commitments to financing water, sanitation and hygiene:**
- To increase domestic funding allocation for sanitation development activities – 2008 Sharm El Sheik Declaration
- To allocate 0.5 per cent of GDP to sanitation and hygiene – 2008 eThekwini Ministerial Declaration
- To allocate 5 per cent of national budgets to water and sanitation – 2003 Pan African Implementation and Partnership Conference on Water: Ministerial Declaration

**The African Water Facility Mission seeks to mobilize resources for water in Africa by:**
- Contributing to water resources governance
- Increasing water wisdom
- Meeting urgent needs
- Strengthening the countries’ financial base

**African Ministers Initiative for water, sanitation and hygiene objectives:**
- To support African governments to achieve goals and targets for water and sanitation
- To place water, sanitation and hygiene issues high on the political agenda at AMCOW
- To strengthen south-south collaboration on water, sanitation and hygiene interventions

**Conclusion**

Funding is the biggest constraint to the provision and maintenance of infrastructure for wastewater and sanitation management. Domestic sources, made up of taxes and tariffs, are inadequate while overseas development assistance is dwindling. However, there is political will as demonstrated by the ambitious targets such as those espoused in the eThekwini and N’gor Declarations.

Financing and political will alone will not help Africa meet its SDG6 targets. Newer and cheaper technologies for wastewater management and sanitation provision will be helpful to Africa in the face of funding shortages.