

GLOBAL WATERS RADIO

Ella Lazarte and Barbara Kazimbaya-Senkwe on How Improved Financing Enhances Water and Sanitation Service Delivery

Interview Transcript

Global Waters Radio: You are tuned into Global Waters Radio, a podcast series produced by the Water Team at the U.S. Agency for International Development. The series offers listeners insights from USAID officials, development partners, thought leaders, and experts from across the water sector, as they discuss current USAID water programming, and cutting edge research from around the world.

With World Water Day right around the corner, it's worth remembering that pipes, treatment plants, and other infrastructure are key pieces of any well-functioning water supply system. But good governance and, the topic of today's podcast—financing—are just as important as infrastructure to guarantee the successful delivery of water and sanitation services.

The World Bank estimates that \$114 billion per year of capital investment will be required to provide universal access to safely managed water and sanitation services by 2030—about three times the current investment levels. And while seven of every 10 countries say they've identified an approach for extending WASH infrastructure and services to low-income populations, eight of every 10 countries also say they don't have enough funding to reach those goals.

So here we are. How can better financing help extend water and sanitation services to those most in need? To answer that question, we're joined by two experts, Ella Lazarte, Senior Water and Sanitation Advisor at USAID, and Barbara Kazimbaya-Senkwe, Global Knowledge Management and Communications Lead with the USAID-supported Water, Sanitation, and Hygiene Finance program.

So Ella, over to you first, set the stage for us: Why is strengthening financing so important for the WASH sector, and how does improved water and sanitation help empower communities?

Ella Lazarte: That's a good question. In the water and sanitation sector, we think of self-reliance as the ability of countries' water and sanitation systems to sustainably and equitably deliver affordable water and sanitation services, improve health, livelihoods, educational opportunities, and dignity among citizens, while conserving natural resources and reducing the conditions that can contribute to water-related conflicts. So that's our big picture of self-reliance in the sector. And to us, increasing partner countries' commitment and capacity in the sector are critical to accelerating their

journeys along the arc to self-sufficiency.

And we know that the number of people without adequate access to water and sanitation is very high—over two billion for sanitation alone—and reaching them requires sustained financing for construction, maintenance, rehabilitation, and operation of water and sanitation systems and services. And presently there's a big gap between financing required and the financing that's available. In response to that, USAID has highlighted financing along with governance and institutions as one of our four strategic objectives in the U.S. Government's Global Water Strategy, as well as the new USAID Water and Development Implementation guide.

And USAID will support these countries to increase their capacity to generate and manage greater sums of public revenue and increasingly harness domestic and international private investment to close these financing gaps, and make a credible commitment to ensuring that these resources are spent in an accountable, transparent, and effective manner. When countries have effective policies, and country-led processes, and institutions capable of implementing them, they attract investments in both domestic and external sources, leading to a cycle of increased capacity, greater investor confidence, increased sector finance, and accelerated coverage of water and sanitation services.

GWR: With \$114 billion of capital investment needed annually to achieve universal access to safely managed water and sanitation by 2030, how would you say public-private partnerships can help close the funding gap?

EL: Public-private partnerships are definitely important in closing that significant funding gap that we have in the sector. The financing has traditionally been provided by the public sector — so tariffs, taxes, and transfers. To bridge the financing gaps, the water sector needs to determine ways to fully leverage the financing available from the private sector. And this includes both direct access to different financing instruments, such as commercial loans, capital markets, equity investments, and also pursue public-private partnerships for certain segments in which the private sector can take on some of the risk of investing in the water and sanitation services—with expectation of a profit.

GWR: What would you say are some typical challenges encountered when trying to introduce or promote governance and financing reforms in the WASH sector, and can you give an example of how USAID responds to those challenges?

EL: Globally, the water sector has actually made significant progress and institutional reforms, with many countries adopting corporatization, commercialization, and independent regulation as a model for water utility management. And so this has definitely set many water service providers on the right path, and USAID's intention is to build off these gains, which have been supported by many other development partners.

I would also like to talk a little bit about water in general. Is it an economic or social good? Is it a public good? But there's general acceptance that water is both an economic and social good, and in many cases the social element overrides economic considerations. But this, together with limited understanding of the real cost of water service provision, generally poses a challenge for making financing work in the sector. And added to this is the fact that even though water is considered and declared as a priority in the countries where we work, translating this into practice through budgetary allocations and facilitating water service providers to charge cost recovery tariffs, and work independently, remains a challenge for us.

GWR: Ella, can you provide any specific examples of USAID programs or partnerships that you think have proven particularly effective in strengthening WASH governance and financing?

EL: Strengthening governance of WASH or any sector, whether its energy, transport, or education, is a government responsibility. The role of USAID and other partners is to provide assistance that enables the government to move along that path. Governance and financing is something that we're highlighting very much in our U.S. Government Global Water Strategy, and our USAID Water and Development Implementation guide. In the Africa region, USAID successfully worked with the World Bank to encourage public water service providers to expand their access to commercial financing under the SUWASA program, the Sustainable Water and Sanitation and Africa program. USAID and the World Bank collaborated and succeeded in helping companies to gain at least \$4 million from commercial banks. The technical assistance provided by SUWASA showed that it was possible for public water service providers to undertake some of the basic reforms that make commercial banks comfortable to lend to the sector, and that program really set the stage for the current flagship program on financing that we have, which is WASH-FIN.

GWR: Great. And lastly, Ella, the theme of World Water Day 2019 is "Leaving No One Behind." How would you say this theme reflected in USAID's financing and governance work in the water and sanitation sectors?

EL: I think a lot of people actually, when they think financing, commercial banks, and private capital markets, they think, 'Well, it's almost mutually exclusive from serving the poor.' And what I would like to emphasize is that actually working on governance and finance is about inclusion, and is about serving the underserved and marginalized, working on governance reform, making sure that there are policies and strategies in place for the WASH sector to serve everybody to get to universal access and sustainable services by 2030. And it's important to make sure that the policy and legal frameworks are there to do that. And so it's definitely an art, it's a fine balance, but I think we'll get there, and it's crucial that we think about this holistically, even as we talk about the profit motive and incentives for the private sector to invest.

GWR: Great, thanks so much Ella. Let's now turn to Barbara, Global

Knowledge Management and Communications Lead with the USAID-supported Water, Sanitation, and Hygiene Finance project, better known as WASH-FIN, which is strengthening the financing of water and sanitation utilities in Cambodia, Kenya, Mozambique, Nepal, the Philippines, Senegal, and South Africa. Barbara, to start off with, can you talk a bit about WASH-FIN's mission, and how it helps reach marginalized populations most in need of water and sanitation improvements?

Barbara Kazimbaya-Senkwe: I think when you think about the WASH-FIN program, the whole concept of WASH-FIN is about leaving no one behind. It's because in almost all the countries where we are working, there are a lot of elements that the governments there need to put in place to reach universal access to water and sanitation. And almost all of those elements will require financing, particularly from the public sector, and also from other sources of financing.

And why do we need other sources of financing? This is because all the funding that we have available in the public sector—and that is putting together money which comes from the taxpayers, money which comes from transfers from development partners—all that is not sufficient. Therefore, WASH-FIN, by being positioned to tackle the issue of leveraging private or market financing, is basically poised to answer the question around making sure that we have enough financing so that we can provide the services and we do not leave anybody behind in being able to access clean drinking water and safe sanitation.

You should consider the fact that our aim at WASH-FIN is to ensure that the contribution that we are making of raising \$200 million—which is our target—will not only contribute directly to increasing access, but most importantly to leave behind systems and tools that countries can use to continue plugging the finance gap so that they can continue to provide the services that are required—and ultimately reach universal access.

GWR: Infrastructure is important, but so is good governance and financing. Can you talk about how these three elements—infrastructure, financing, and governance—relate to one another in the effort to scale-up water and sanitation improvements?

BKS: So infrastructure is absolutely critical to us being able to deliver water and sanitation. But having said that, you cannot deliver that infrastructure unless you have the financing that is required to do so. But to get the financing in place, you also need governance that allows those that have been tasked with providing their water and sanitation to be able to do their job. You need a space where they can make decisions without interference. And so the three things, we see that they work together—you can't have one without the other two.

GWR: It's clear good governance is at the foundation of sustainable

water and sanitation improvements. Would you say there is a one-size-fits-all approach for improving utilities' governance and financing in different parts of the world, or it more effectively done on a country-by-country basis?

BKS: I want to first start by saying that one-size-fits-all never worked anywhere. It's absolutely important I think that we start from that perspective. Why? Because each country is different. And even in the countries where we are working, we find that water service providers, even if they are incorporated, they also different, because the dynamics of the environment in which they are working are very different. And so, therefore, WASH-FIN's approach is to treat each of our partners as a unique partner, and find the solutions that fit to their specific needs and opportunities. And then depending on where they are, we will work with them to figure out if the main issue they have is being able to develop the technical projects, we would then provide that technical support so the they can package those technical projects in a manner that is attractive to the potential financials. Apart from that, we also look at their financials. Are they in a place where they could go, especially if you're targeting a commercial bank? They take their financial statements to a bank, and would the bank accept them? Would they look at them in a creditworthy, that they are creditworthy or not? So if they are not, we then work with them and try and figure out what are some of the key things that you can begin to do to address those elements that are making you not creditworthy. For each country, we go in and have a completely different outlook, depending on the needs that we find in that particular country.

GWR: Lastly, what have you been proud about so far, in terms of results that you have been seeing from WASH-FIN's work?

BKS: Companies that never thought they could approach a bank, today they are calling us and they're telling us how they are having a negotiation with this bank, or that bank, because we've given them the confidence to be able to do that. And I want to say here I am a believer in the saying that the journey of 1,000 miles begins with one step. The important thing, our biggest contribution, will be when we leave, these companies are able to walk into a bank by themselves, and get financing without us, without a donor standing next to them to say this is how you do it—that is the real change that I'm hoping we will leave behind. And I'm very sure that the way we have set ourselves up, we will be able to deliver that.

GWR: Thanks so much to our two guests. For more information on the U.S. Government's Global Water Strategy and USAID's support for financing improvements in the water, sanitation, and hygiene sectors, have a look at the links below, and as always, remember to follow the USAID Water Team on Twitter @USAIDWater and visit us online at Globalwaters.org.

This is Global Waters Radio.