

OECD – GIZ Conference: Closing the gap for water in line with SDG ambitions: the role of blended finance

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“Securing the foundations to close the service and financing gap”

- Daniel Nordmann

I agree with Rolfe Eberhard: I too was pleasantly surprised by the apparent consensus in Stockholm that mobilizing additional funding for water (e.g. through blended finance) alone is not enough to solve the problems in the sector. Instead, we need to intensify the discussion on securing the foundations for viable utilities and (near) universal access to piped water: the financing framework, governance, commercialization, pro-poor orientation and data. Unless we get these basics right, mobilizing and absorbing additional funding will be difficult. The good news emerging from the Access Study is that even in a poor country with difficult governance conditions, it is possible to reach financial viability (including the repayment of loans) and near universal access to urban piped water. However, this remains up to now rather the exception than rule. What could we do differently in the future to make it the norm?

ODA could be better targeted in helping to close the service gap: in Sub-Saharan Africa access to urban piped water is declining and stands now at only 53%. The underserved population is usually poor. Getting anywhere close to SDG 6 will be impossible without accelerating access for the poor. How can this be done? Increase the pro-poor orientation of sector support: we should invest more in low-cost technologies (including water kiosks) to bring piped water into low-income areas. And more importantly, we should stop viewing such investments as accompanying measures to larger investments. They are investment measures in their own right that help utilities to make better use of existing supply systems.

ODA could do much better in helping to close the financing gap: in LDCs, we cannot expect much domestic investment from the treasury in water, let alone in sanitation. But, as the Access Study has shown, even in a very poor country a cost-covering tariff is possible. We believe that ODA could be better used in order to activate the significant self-financing potential of the sector. This would be a precondition for any loan and blended finance. How? Strengthen the link between finance, and governance and performance: Funding for investments should be allocated on a competitive basis. This way, money would be allowed to flow more flexibly to where it is best used for enhancing viability and accelerating access. Another way of putting it would be “increasing aid effectiveness”. It goes without saying that subsidizing O&M for urban utilities should be a no-go area.

Investing in low-cost technologies, linking finance to governance and increasing the level of sector self-financing provide a pathway to closing both the access and financing gaps. What else do we need? Better data on investments and data on access. Sound data informs targeted investment in underserved areas, management of risks and competitive financing.

To make all this work, we need a closer link between technical cooperation and donors. GIZ, as the German international cooperation agency, has been supporting policy, institutional and utility reforms in many countries over the last 15 years. However, the framework for sector financing on country-level is still a blind spot in many of our partner countries. It seems high time that the technical cooperation and financing agencies join hands and play a more constructive role in supporting the development of the institutions and instruments needed to professionalize funding mobilization, allocation and asset development. Collaboration is our only way forward if we want to both “fix the leaking bucket and fill more buckets”, to stick with Rolfe Eberhard’s fitting analogy.

Reference: “Improving access to urban water sustainably in sub-Saharan Africa and beyond: A way forward for German Development Cooperation and its Partners based on a review of two decades of involvement in urban water sector reforms in Africa”. A report prepared for GIZ. June 2018.

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