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Session 3-Bridging the financial gap: investing in SDG 6

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Session 3-Bridging the financial gap: investing in SDG 6

Pillars 1-5: EU International Partnership Priorities

13:15 - 14:45

335 participants signed up for this session

Chris Burns reminds participants to use the hashtag #WaterandBeyond on social media. Today, we will be speaking about how the EU will help in providing more plentiful water and safe water for people around the world. This is all about partnerships and cooperation. The session of today is about bridging the financial gap as yesterday we learned that there is a lack of 100 billion per year in funding to develop water infrastructures around the world. This is what the SDG6 is about; ensuring availability and sustainable management of water and sanitation for all. How do we accomplish that in the next years? We will begin with the Keynote, then we will listen to our panelists, after that, we will have a Q&A session. Afterward, we will split into two break-out groups.

Introduction

This session is about bringing the financial gap on water sanitation.

- **Facilitator: Christian Severin, Coordinator International Waters, Global Environment Facility**

Financing is something I work on a lot with many portfolio projects in the world. It is a common theme. We need to work across these different economic sectors. There is no other way to go to sustainable development. That is one of the things we will look at today. If we are to be able to deal with the challenges that we face and that we will be facing. Unfortunately, I think that the current pandemic has increased some of the constraints, but also triggered lots of opportunities. I hope you have the remedy, Catarina, as we need it!

- **Bridging the current financial gap for SDG 6, keynote by Catarina de Albuquerque, CEO, Sanitation and Water for All**

Bridging the current financial gap is an important topic. Your focus on transformative approaches is both urgent and timely. We have learned that business as usual is really not an option. Transformation is the only way forward, and water, sanitation and hygiene are the heart of how we transform. It's basic, fundamental. Without securing access to water,

sanitation and hygiene, we will not be able to achieve our goals and the SDGs agenda will be undermined.

Our ability to respond and to recover from this horrible tragic global pandemic will be weak; our ability to build resilience will be weak. So now less than 10 years away from the 2030 deadline, we have a chance, an obligation to correct the current course. Firstly, a critical part of this course current correction must include mobilization of financial resources to ensure universal access to water and sanitation. Many of you are already aware of the predicted amount needed to ensure universal access to water and sanitation by 2030: approximately 113 billion US dollars per year every year until 2030 (this does not take into account climate!). It is the amount that was calculated at the time the SDGs were approved and since we did not keep up with the advice, these numbers are already outdated. And even if they are not outdated, they only cover the expenses for basics and services, we do need more and we do need to act better.

For instance, with decades of investments in the sector, particularly outside urban areas, smaller towns have been systematically neglected. Access to services in these areas is often intolerable, this has exacerbated inequalities and also exposed the fragile situation of service providers in many countries. Wash is a critical preventive measure against COVID and future pandemics and however this fight, everything we know about the central role of water, sanitation and hygiene in fighting against COVID-19, we have not seen an increase in financing the sector... on the contrary! In fact, WASH is receiving much less funding in comparison to other areas, and this is, very surprisingly decreasing, despite the global pandemic, despite hundreds of warnings asking people to wash their hands. We also need to pay more attention to investments targeted and interlinkages between climate action and water, sanitation and hygiene. There are ambitious and urgent targets for climate investments, but the discussion on water and sanitation in climate, including regarding finance is unfortunately not loud enough.

Less than 3% of overall climate finance goes to water related projects. And of those funds, only a tenth is directed towards projects directing at ensuring water and sanitation services. This needs to change. Water and sanitation infrastructures are in themselves climate mitigations measures. Make cities more resilient with water treatment protects the ecosystem, biodiversity, recycling of waste water, increases water availability for every country, contributing to food security in short. We cannot build a climate resilience system without paying more attention to water and sanitation.

The good news is that we know what is needed. There are examples from all over the world, many of them shared within our partnership in the water and sanitation for all partnership and three regional Finance Ministers meetings we hosted in November and December 2020. We also published a handbook for financial ministers, on how to make financial investments work. This speaks about critical interventions to make sure countries make the required investments; first, maximizing the value from existing public funding, second, mobilize more funding by setting up adequate cost recovery policies, looking at tariffs, etc. Third, increase domestic finance and fourth, encouraging innovation and explore new approaches.

The systematic problem in financing towards sanitation and hygiene is that financing mechanisms benefit those who have already access rather than focusing on those who have been left behind. There is an interesting study from the World Bank mentioning this clearly, again, this must change.

Additionally, there is another critical aspect for investment; political leadership and good governments. This does not come for free. We need a strong legislative framework, comprehensive policies, that promote human rights, address corruption and inequalities and ensure transparency, robust accountability mechanisms that also require reliable resourcing and ensuring an enabling environment for water and sanitation. This is a total win-win investment.

This leads to the role of international cooperation. The challenges we face are interconnected, global. The solution we seek must be grounded in solidarity, based on quality evidence and aimed towards a more integrated approach.

How can development assistance help not only generations that urgently need financial resources for the sector, but also contribute to the environment for the realization of the right to water and sanitation, to accountability mechanisms, participation, independent regulation, good policies, and good systems, etc. The role for external supporting agencies in advocating for the political priorities of water, sanitation and hygiene is really supporting learning across regions and across sectors. We need to see more consistent support through international cooperation for effective and sustainable accountability mechanisms so we all hold our actors responsible for the commitments they have made and the human rights obligations. Sanitation and water for all partnership is committed to do its part, it will continue to elevate WASH in political agendas, both nationally, regionally, and globally. It will facilitate peer learning and matchmaking between stakeholders and support greater accountability in the sector so it can deliver its promises. The partnership will also continue to support an enabling environment. The ingredients needed to achieve our goals are more participation, more transparency, less corruption, better access to information. The goal is to achieve the rights to water and sanitation for all and everywhere through change

- *Mr. Christian Severin's question: there is finance available, but how does it work and how do you fulfil that finance?*

We have partnerships; we do not implement projects on the field. We work with our almost 300 partners, 80 of them being governments plus civil society, the private sector, academic institutions, etc. We work on advocacy, on changing policies at country level, we do matchmaking exchange of experiences, we work a lot on mobilizing politics at the highest levels, we have now a global leadership council composed of the former head of states and governments and our idea is to inspire to make governments want to be bound and to make changes. There are wonderful donors, and the more finance we have, the more we can do. We have representatives of different countries and they are eager to get support in order to prepare better legislation, better policies in order to make sure there is better cooperation, integration, that there is better alignment at country level. We actually work together on a common agenda to make sure that we realize these rights and SDG6 before 2030.

Question from the Chat: Arnaud de Vanssay 11:05 PM

Thanks for this inspiring keynote. What was the main takeaway from your meeting with the finance ministers? How can we support you in this discussion?

We came up with 5 takeaways. Financing priorities are determinant politically, and water and sanitation must be pushed further up the political agenda to demonstrate the significance of social and economic development in order to secure adequate finance. Water and sanitation are human rights and the financing should reflect this. COVID had negative impacts on funding streams, on access to services, on people's lives. But at the same time, it has highlighted the importance of water and hygiene for health. This is a message that politicians, ministers convey and that they can use at national level to increase understanding and prioritization of WASH.

The climate crisis is affecting access to services through extreme weather events, rainfalls and water resources and their impact is being felt by the most vulnerable and disadvantaged populations so resilience must be designed into all services and resilience must have a human face in order to make sure that all services remain sustainable and do reach everyone. Green financing, green bonds and financing mechanisms can secure additional funding that supports both the delivery of better systems as well as the attainment of the climate goals. Governments must not work alone in developing policies and strategies for financing services. This has been clearly said in the three meetings that we held. There are many opportunities through working with the private sector, with society, with academic institutions. We have relevant expertise that can be harnessed through cooperation and collaboration. I invite you to join us, to write to us. We have a lot of work to be done.

- Christian Severin: this is wonderful to hear that there are actions behind the scene. Climate change attracts a lot of funds, why does not WASH capture the same attention? The world has been shut down, this is an immediate threat. So suddenly we have seen funds that we had not had before. Whereas we know that climate change and the water issues we are facing globally are long-term things. There are long-term threats; we can let them stay for a while. The cost is going to be astronomical if we do not work on it, but we can act in 5 or 10 years. It is hard to get politicians to release the same amount of attention to the climate agenda. It is amazing to imagine how far we could have gone with the money that could have been released for the climate. It is not that easy.
- Catarina de Albuquerque: we were analyzing with a company the attention shown to different topics. If you compare water, sanitation and hygiene with climate, climate seems to get more attention than gender, water, but when you superpose it with COVID, everything changes. I think the question was why does water receive even less attention than climate and COVID. I think that we have some ideas. Maybe this is because it is a very technical sector, that brings around the table very technical people, that know how to do their jobs well on the field, but we are not there yet, in terms of the advocacy, reaching up to the higher political levels, to the heads of states and governments. There is a chronic problem when you compare crises with chronic issues. The chronic issues are much more silent than crises and the politicians act in sectors that are noisier. Somehow, we have failed to make people feel outraged at the situation we are living in terms of water, sanitation and hygiene. We need to make more noise; we need to call more on governments about legal obligations to realize these rights, to invest in prioritizing those subjects. We need to attract more attraction from the political world on these subjects.
- Christian Severin: I think you are right, we must make more noise. Water is a massive issue and we do need to act. There is another question; are there serious cross-sectoral co-financing opportunities? Surely there are modalities for energy utilities to incentivize water utilities which are major energy consumers and the technology provides opportunities. In the long run this will improve the utilities balance sheets.

- Catarina de Albuquerque: there are opportunities of cross-sectoral financing. You are mentioning energy and there can be even other areas. I have seen it happening in some countries with WASH.
- Christian Severin: the question about Niger will be answered by written later.

Parallel break-out groups: Setting the current context on finance for water and challenges and opportunities

13:40 - 14:30

111 participants signed up for this session

Group 1: Setting the current context: finance for water and challenges and opportunities

- **Chilufya Chileshe, Interim Global Policy Director, WaterAid Southern Africa**

We are facing, particularly in Southern Africa- Zambia, 4 major crises: a huge debt partner in addition to the struggles with COVID-19, climate change, and the threat of flooding. We also have had slow progress on SDG meeting those goals. It is a confluence of crisis. We have a loss of financing in the actual situation.

We face a confluence of four major crises: COVID-19, accelerating climate change, stalled progress on SDG6 and Agenda 2030, and a growing debt crisis in many developing countries. Last year WaterAid estimated that developing countries would face a government revenue shortfall of at least US\$400 billion in 2020-2021 as a result of COVID-19 (Common Purpose, Common Future).

OECD has estimated that the financing gap for all SDGs has increased from US\$2.5 trillion a year pre-COVID to US\$4.2 trillion today. It is critical for our COVID-19, climate change, and SDG financing policy that we mobilize substantially more sustainable finance for safe water supply, sanitation, and hygiene.

In the work of WaterAid, we speak on the word of the 3 T's ;

- Tariffs: user fees for services provided and households' investment for self-supply
- Transfers: from external sources, such as international donors (ODA grants), foundations, NGOs such as WaterAid, remittances
- Taxes: domestic taxes levied by local and central governments and provided as grants or subsidies.

3 T's principally fund infrastructure and services, but also repay loans from repayable financing.

The question of Concessional finance, ODA loans, is also important because these are modalities for repayable finance available to countries, provided by development agencies, such as World Bank, AFD, EU, climate funds. It includes a grant element.

A lot can be said about Private finance provided by private sector financiers at market rate (vendor finance, microfinance, loans, bonds, equity). What should be the role of those providers? And the private sector?

I want to call attention to the slide on expenditures, especially the Blue bass and the yellow. It is what we need to get as investment each year by 2030. And as you see the gap is huge.

Looking at where the money is coming: a few countries. The slide will show you who are those countries and institutions. Impressively, it is good to see the European Union amongst the leading institutions in this slide.

So, the call is always, has always been, and should be “more”: more and better finance to be sure that we can meet the SDG aspirations.

Domestic resource mobilization should be the primary source of financing (Govt. budgets, affordable tariffs, etc.). ODA is more vital than ever—but at current levels it is far too low. Tackling financial absorption constraints goes hand-in-hand with increased financing. An emphasis is made on equity and sustainability of services, consistent with water and sanitation as human rights.

ODA is going to be more important and vital than ever. How do we make sure that the money is supporting the infrastructures?

Finally, in the last slide, I want to emphasize the needs to be on both quantity and quality funds.

A step-change in quantity is needed if SDG6 targets are to be achieved. Depending on the context, this could be 3/4/5 times higher than current spending levels • From all sources: public, private, domestic, and international (including new opportunities from climate finance) • Improving the quality of financing is also critical, with a focus on affordability, transparency, higher levels of efficiency (e.g. Non-Revenue Water), etc. • We should be aiming to place water, sanitation, and hygiene at the heart of a healthy and green economic recovery from COVID-19—and see a global response that is equal to the task we face today • The EU should have a key role in leading this global response.

As we go out of the pandemic, there is going to be a more aggressive approach to be sure that the money is availed and targets women, people who are marginalized, and strengthens people that really need it.

- **Karine Measson, Head of the Water Management Division, European Investment Bank (EIB)**

We are far from reaching the requirements on the investment required for reaching the level of SDG6. In many previous sessions, we have been talking about the importance of building strategies and partnerships and I will focus my contribution on building these partnerships. There will be two parts in the presentation:

1. First part:

The overview of the EIB:

How we contribute to the water sector and on the climate development sector.

There is a strong participation outside the EU, a huge part on climate action; more than 30 water experts across 3 water divisions working in and outside the EU.

See the slides with the lead in participation. There is a significant contribution outside the EU; last year was a record year on loan in the water sector. Usually, 4 to 5% is dedicated to water, and last year it was 6%.

EIB intervenes in many geographies especially in ACP countries but also in Latin America and other countries.

The impact of the EIB in 2020; we are active in various sectors:

1. Water: safer drinking water for 29 million people
2. Wastewater: improved sanitation for 15.5 million people
3. Flood Protection: reduced flood risk for 1.8 million people

Let's see an overview of the EIB Climate roadmap which was approved last year in November. And basically, this is based on climate action and environmental sustainability as new criteria that we are to flow in line with the EU taxonomy, and it is very important for the water sector. We are going to:

- Study financing dedicated to CA & ES, 50% of Bank operations in 2025 and from then on
- Support €1 trillion of investments (2021 – 2030) in Climate Action & Environmental Sustainability
- Alignment of all its financing activities with the principles and goals of the Paris agreement (by the end of 2020)

This is a chance for the water sector because they can contribute to climate action, ES, fight against pollution, biodiversity, or circular economy. So, this agenda is an opportunity for the sector.

2. Second part: The importance of partnership and coalition:

The toolbox and snapshot of the lending instruments that are not always applicable to the water sector. These are the projects the EIB want to present:

1. Team Europe in Madagascar: Jirama water. This is a very good example of proactive cooperation between the EUD and the EIB. Some finance could be refinancing with a loan of the EIB and investment ground of the African investment funds, the project is under implementation and clearly, we can see that public loans can become more conceptual.
2. Another example of a project with a public development bank the BDE in Ecuador:

A project well in line with the water alliance coalition, the client can benefit of the advice of facility with GIZ and WDB Development to support the development of a pipeline. This is a very good example of support innovating water projects.
3. Another example of the Water Sector Fund in the Netherlands. This is a partnership with the Dutch government and the idea is to support innovative projects, for the moment it is doing the finance of Technical Assistance operations and looking for using these funds as a financial instrument.

Conclusions: EIB knows that there is a need for more financing and we are ready to play our part and find our partners. There is an opportunity to use the climate-related funds to support financing in the water sector that could be an opportunity for Climate Action mitigation & Climate adaptation.

- **Céline Robert, Head of the Water and Sanitation Division, French Development Agency (AFD)**

Moderator: France is a worldwide leader in the water sector, as a bilateral development agency, how do you see the financing in the water sector? What do you want to suggest to move forward?

We are the same as the EBI but smaller at the scale of France. The activities of the AFD were increasing and it was due to new financing that was given to the water sector. The number you see here is increasing because our engagement has doubled and they were 1 billion euro. Half of the donations come from the EU, it is important to stress it because it is one of our strategic donors.

The bank has 4 areas of intervention: act at territorial level in the face of climate and ecological issues, develop infrastructure with particular emphasis on sanitation, and improve governance, a condition for the performance and sustainability of services.

This is what I insisted on in my presentation: I believe that the budget crisis is due to governance problems and this trend is going to be worst due to the lack of proper autonomies, human resources and technical and financial issues and this has an impact on the investment because the sector is not really attractive to invest in.

This is really a problem because the sector is not really attractive for commercial investment because we are talking about upfront investments that are quite significant. The return on investment is quite late and specific, so this need to be changed and we need to reinforce

governance and adapt financial tools and be sure that we have the right subsidies and we also need to have the right and a consistent policy in order to make sure that this is adapted.

We also need to be sure that we have the right subsidiaries and grants. We need to have the same coordination and message, because we want to develop other instruments.

We need several finance tools in order to adapt to funding governance tools. I will not explain this in detail but just what we want to develop is finance for water like microfinance or loans.

What we want to develop is that financing for WASH operators as well as for the demand side from the users, you need different funds and loans.

A very interesting example of a project that was financed in Cambodia, where you can find a lot of small-scale operators that had trouble reaching commercial financing, the French bank brought a credit line to a local bank to support the portfolio so the interest rates diminished. Thanks to the EU help we can support not only with the funds but with the Technical assistance, for the bank and the beneficiary.

Beyond mobilizing several kinds of financial tools, we need to make sure that we can make use of all players in order to fill the gap of financing and with other partners, EIB, WB, ... we have this so-called: water finance coalition in parallel with the summit that happens in 2020, that gather 450 public banks for development. There was a launching session during which we really wondered what could be a more mobile control plate on the public developing bank like the one in Ecuador, and this coalition aims at developing representing and better understanding of the rules of these banks and also draft recommendations based on the study that we have been financing and we hope to present the results on the Water Global Forum in 2021 in Dakar.

Moderator: Thank you very much for your comments. We are going to listen to the private sector.

- **Dominique Gatel, Vice President of Public Affairs/Water, Veolia Environment**

Moderator: We talk about finance leverage. You come from the private sector, what do you think is the leverage of the private sector, what are the opportunities offered by blended finance? What do you think we can do to go forward?

Let me tell you a few words about Veolia; this is a water private service company. When we win a contract, we have to implement it while being bound by a limited time contract, with penalties in case of failure.

From the slide: the municipally bottom and from Water resource on the top are not the same for us. I want to stress that is a difference between the two.

Municipal Water Supply and Sanitation: SDG 6.1, 6.2, 6.3 • Specific WSS rules, • Governance, and finance;

Water Resource: SDG 6.4, 6.5, and 6.6 • Resource protection • Quantitative/Qualitative management and arbitration State/ Basin authorities: • IWRM rules, governance, and finance

A snapshot from the World Bank data to show investment from the private sector in infrastructure is just to illustrate that investment in WASH water and sanitation we can see that water (the tiny blue part) is not interesting for private finance.

So talking about finance that leads us to two questions:

1. Is there an economical model?
2. Who bears the financial part? And how to finance the risks?

The third way to get against this risk, that has been developed before, about governance and giving confidence to the private investors and there are elements to put in place at national and municipal level:

At national level:

- Human Rights criteria and KPIs definition, e.g. – % of poor people accessing water through pipes – Labs accreditation – Tariff policies • Legal framework: Separate roles, sector consolidation • Back the goals with consistent and transparent subsidies

At municipal level:

- Ring-fence utilities – Formal procedures for purchases, HR, etc. – Engage customers – Reduce NRW • Output-based Aid • Third-party audit (One essential element in building this trust is the third-party audit).

Another dimension that I want to share with the audience is that, in water, when it comes to the development journey, there are 4 pillars:

1. Managerial • Building a new company spirit - Training all employees of the municipality(ies) and new recruits • Establishing and enforcing procedures
2. Social • Make water affordable and inclusive (acceptance of connection and charges) • Customer services that meet the needs of very diverse customers
3. Sustainable cost-recovery • Tariff & Subsidies • Utility solvency: Blended finance depends on this
4. Technical Performance: • Continuity of service • Metering • Bill collection ratio • Non-Revenue Water reduction

You cannot have a proper recovery if the social dimension is not properly addressed.

Let talk about tariffs, I encourage the audience to read this publication as it is very enlighten in the aspect of tariffs since there are various dimensions that can be discussed. There are two dimensions about tariffs: there is an inherited political process to set tariffs and I do support the view that politicians have a new flexible task to set the tariffs for sustainable cost recovery.

The World Bank has taken what it needs in terms of active private sector management in the water sector. He took this frame from the school where they talk about the maturity ladder of the municipal sector basically to attract private finance, and what it is interesting to look at is that if you move from the left to the right you will see that blended finance (in blue) is at the end (stage 5).

In the last slide as a conclusion about PPPs, he presents this initiative by UNECE “People First Approach” with several criteria:

- access and equity;
- economic effectiveness;
- replicability;
- environmental sustainability and resilience;
- stakeholder engagement.

Questions from the chat:

- Question to Dominique Gatel: How did you achieve success in Nigeria?
When you call to blending finance, it is very difficult to invest in a secure way. What is done in Yemen and other countries is what is called the PPPs approach. Yes, the private stakeholders bring their own investments, as well as technical, human resources, and so on. Finance does not come on its own, it comes as a full package, and a very good example of this is the one in Yemen where we inherited 600 employees. All the workers were trained to ensure that they can end up right on human rights.
- Question to Mrs. Celine Robert: How did you achieve success in blending?

In blending finance we tend to be eager to use ROI and leverage but what is done in Yemen and other regions is what I call PPP finance, but it does not come alone, it comes with a package of other elements.

- One of the problems addressed in the panel is the targeting?

Also, if we are technical people we are going in there, we are making sure that we are targeting the right sector. We try to collaborate and give support. Regarding gender is something that we tackle when we design the projects, it's important to include women in the implementation, and then in the project. There are specific targets; like campaigns to promote women into the utilities. So, these are issues that we are working on. That is not easy but we are pushing that.

Moderator: Not only financing and targeting but also partnerships are important. How do you see that coming in the future?

- Mrs. Karine Measson:

Partnerships are really key to us. Anyway, we never finance a project alone, we always work with other institutions, so it can take many aspects but the right mix of investment, loaning, and grants were mentioned by Celine. We have to be careful about it. We never fund 100% of a project. We expect to increase working with private banks because we think that cooperation is a very important vehicle to promote and finance sustainable projects.

Group 2: Setting the current context: finance for water and challenges and opportunities

Number of participants: 30.

Interaction with participants

- **Toma Yanakiev, Water Supply and Sanitation Specialist, World Bank (WB)**

As we can see in charts, and as many of my colleagues have highlighted, there is a huge financial gap between the required spending for WASH and the actual spending. This cannot be solved without commercial financing. The foundational issues that undermine creditworthiness are technical and financial viability and policies, institutions, and regulations. Another issue is that we have poor pipeline projects; we can conclude that SDGs are unlikely to be met.

Another challenge is the implication of not having enough financing. Too many water sectors are on a slippery slope. Instead of continuously rebuilding failed infrastructure, more emphasis is needed on operation and maintenance. Service providers manage the majority of total funding in the sector, but many are not using these funds effectively. Small incremental delays in maintenance and operational efficiency often lead to more systemic failures. Delivering SDG6 means having innovative business models.

New and innovative approaches are needed to deliver universal access, improve utility efficiency and address water security. More attention needs to be drawn on technology deployment, procurement for at-scale programs, crowding and financing.

Commercial finance is necessary. The vast majority of repayable finance comes from concessional finance, which comes in fact from development finance institutions with a grant element. But to meet the SDGs, commercial finance needs to be leveraged, with a particular focus on domestic commercial financing. During preparation, we should focus on institutional arrangements, governance, regulation, but also focus on technical and financial performance utilities; both of them should bring efficiency and cost recovery, which leads to creditworthiness, which leads to commercial financing.

The options for commercial financing are commercial bank loans including bonds. We really need to focus on that.

Blending strategies help ensure equity; smart public finance is needed to leverage private financing. Grants and subsidies need to be results-based, including capacity-building and training. Concessional loans should provide liquidity to commercial finance providers. The guarantee should reduce the risk perception, leading to lower interest rates.

Three examples of innovative financing supported by the World Bank:

1. **India Hybrid Annuity Model:** this is an innovative model used to attract private investment in building and staying the course in operating wastewater treatment assets in the Ganga River Restoration Program;

2. Angola Luanda Bita Water Supply Guarantee Project: World Bank loan guarantee of 500 million US dollars enabled Angola to leverage more than a billion dollars in private investment in bulk water supply supplemented by World Bank financing for network expansion for the poor;
3. Kenya Transition to Commercial Financing: this is a financing facility that supports local commercial banks to tap into domestic financial markets for water supply sanitation utilities following policy and regulatory changes.

We have learned some lessons during this process. Significant knowledge has been created and has contributed to a growing consensus of what is needed to address financing constraints. Foundational issues are essential and a growing focus. However, complementary capital market development is needed. Leveraging commercial finance is necessary: universal access will not be met with public and concessional financing. Blending commercial and public/concessional funds is a critical first step. We need enhanced donor coordination and more efforts must be made to link the technical assistance to the lending projects. This is a long-term agenda. Some promising results are shown, but more effort at country level is necessary.

Christian Severin: it is important to share the lessons learned.

- **Francis Bougaire, Manager, Water Coordination and Partnerships Division, African Development Bank (AfDB)**

I will present to you the challenges and lessons learned related to the financing of water and particularly transboundary water cooperation and basin development, based on AfDB's experience as a regional multilateral development bank.

The challenges related to financing water in Africa are divided into two groups; the infrastructure deficit and the weak sector management and governance. The infrastructure deficit leads to an underdevelopment of water resources.

Concerning the infrastructure deficit, we can see that 63% of the population has access to basic drinking water and 38% to basic sanitation. There is a low storage capacity and limited resilience to water-related disaster risks and climate change. The hydropower potential is undeveloped, less than 5% is valorized. The arable land irrigated potential is undeveloped, only 5% is valorized. The water sanitation structure funding gap is estimated to an amount of 27.5 billion dollars per year.

Concerning the weak sector management and governance, we can see weak institutions, operation and maintenance systems, and human capacity. There are 80 transboundary water basins, and weak regional cooperation is observed. There is water-related insecurity, conflicts, and migrations. In the politics and development strategies, we can observe a low sector priority and visibility.

All those challenges result in inadequate water security, hindering inclusive, collaborative, and green growth.

The African Development Bank Group is composed of four elements: African Development Bank (ADB), whose resources are primarily raised from capital markets, African Development Fund (ADF), whose financing terms are concessional, Nigeria Trust Fund (NTF), which works in their own conditions, AfDB Special and Trust Funds, which are an important complement to bank group resources. There are about 40 Special and Trust Funds.

Approximately 218 million dollars have been invested by the bank in 2020 in the water and sanitation sector against 500 million dollars in 2019. This is linked to the negative impacts of the COVID-19.

The bank has had a significant footprint in all regions and most African countries.

The operational dimensions of AfDB's approach towards water security in Africa are:

1. economic valuation of water, pricing of water services, and cost recovery;
2. sustainable, smarter and resilient infrastructure;
3. governance and enabling environment;
4. financing and investments;
5. the multi-purpose use of water and ecosystem approach;
6. knowledge management, innovation, technology, and research;
7. partnership, participation, and inclusiveness.

The conclusions and takeaways are to prepare high quality and bankable projects with scale-up project preparation facilities, like AWF, for economy and impact, to unbundle large projects and scope out bankable project components to leverage the private sector, to go beyond our traditional scope by raising the profile by investing in complex projects (water, energy, and agriculture). Effective L/RBOs are essential for fast-tracking cross-border Water Infrastructure Investments. Benefit-sharing approaches, including social and environmental aspects, are necessary tools for realistic investment planning and decision making. It is important to enhance countries, REC, RBO governance, and capacities to attract non-public financing into the sector and ensure a more effective use of mobilized resources.

Christian Severin: I really appreciated the slide at the end of your presentation.

- **Markus Theobald, Head of Cooperation, EU Delegation to Lesotho**

I will share some experience on one of our smaller partner countries in Africa, Lesotho. Lesotho has a land size comparable to the land size of Belgium. 2 million people live there. This is the only least developed country in the Southern African Customs Union. The country is landlocked, it is completely surrounded by South Africa. Lesotho has no access to a coastline; therefore the country cannot desalinate water. There are several rivers including Sequa or Orange River. Lesotho exports water to the powerhouses of South Africa, the Gauteng region.

The EU has supported Lesotho over decades, for example, the Green Deal which has been proposed. We are trying to address the SDG6, but also other related SDGs like Access, Jobs, Growth, Health, and Sustainability. Until 2016, the EU provided budget support, but it was discontinued because the conditions for budget support are not fulfilled.

We have large infrastructure developments in the lowlands. 124 million euros have been invested, more than half of that, 69 million euros, is for the water sector alone.

Last year we have signed an agreement with the European Investment Bank and the World Bank. This is the first phase of the program. The second large program that we have is a co-financing between the European Union, Germany, and Lesotho, which means, Lesotho has given money. This is the Integrated Catchment Management program, whose aim is to explain to people how to maintain the wetlands in Lesotho, so the soil collects water to bring it to highlands and permits the export of water to South Africa. This is also an educational program for farmers and herders to prevent the erosion of the land. This is made in close cooperation with Germany. Germany is the only EU member state to have a permanent presence in Lesotho.

Everything is done in policy dialogue and a water diplomacy atmosphere. Our goal is to improve the water sector governance, to support and assist with the formulation of policies, strategies, and regulations, to raise awareness for regional water resources management and conflict prevention (this is a potential risk in the future), underline that water supply and sanitation are two sides of the same coin, integrate aspects of natural resources management and climate change mitigation. It is also important to highlight the nexus of Water – Energy – Food and Security. I have already developed twinning arrangements in other countries, and it would be interesting to implement that in the future in Lesotho.

- **Leonard Shang-Quartey, Policy Analyst, Water Citizens Network, Ghana**

The government has primary responsibility in ensuring that its citizens have the right to water. The government must act toward its citizens by removing the barriers that stand between them and the access to water. Barriers are for example financing, but there are more barriers that need to be addressed. One key challenge is the political interference that affects government assistance of the utilities. I think it is important to look at the different challenges that confront the sector and look at the objectives, one of them being ensuring efficiency and sustainability. There is also a complement of public health that should not be put aside, especially in the current context of the pandemic.

As Francis has explained earlier, we can see a swing down between 2018 and 2019 in access to safe and reliable water supply services in urban areas and nationally in general. The same goes for sanitation. On the other hand, there is an improvement in access to better liquid waste management and as far as open-defecation free communities are concerned, even if there is a long way to go.

In terms of challenges, we are looking at low government investment in the water sector and the extra political interference in the affairs of utilities. This undermines the morale of workers. It is needed to ensure that LDCs and vulnerable communities have the required financing for SDG6. It is important that funding criteria should prioritize public health objectives among others. This refers to what Toma Yanakiev was saying earlier. There must be a balance between the creditworthiness and other objectives that government owes to citizens. LDCs should be encouraged to increase tax-based financing for SDG6. The government has allocated a very low funding in the water sector based on the taxes citizens pay. This is something that needs to be addressed. It is important that we look at the options

available to ensure that the SDG6 is achieved, including in terms of funding from private sources, which are not directed to the water and sanitation sector.

It is important to ensure the sustainability of WASH operation, for example by addressing the institutional challenge of extra-political interference in the affairs of water utilities. Attention must be paid to workers as they are important stakeholders in this situation, so it is important to assure a respectful working environment, proper tools and training, and better career prospects. It is also critical to listen to feedback from water sector operators and incorporate their views in the policies. Bankers give advice too, but the advice given by operators should be taken into account too. By bringing their perspectives together, it is possible to obtain a more comprehensive and sustainable approach for the future.

It is needed to look at what is done by Global Water Operators' Partnerships Alliance because the EU deserves recommendation on that subject. Technical assistance through public-public partnerships could be explored and encouraged. It can be explored to see what might come in handy in the future. Community cooperatives are more suitable for rural water and sanitation management when it comes to water supply and distribution.

Domestic resources have been mobilized for SDG6. We must look at the issue of illicit financial flows, which is costing Africa 89 billion dollars per year. This is important to see how these resources could be captured and invested in the water sector. The water sector should be given the possibility to add its voice when it comes to resolving the tax evasion issue.

Q&A BO 2

Christian Severin: we have had 4 different perspectives in Africa, but issues are the same on a global scale, we could extrapolate to other regions, these are systemic issues around financing and how it is possible to continue financing, to support these multisector approaches, investments, ensuring sustainable water management, and so forth.

Why have we been focusing a lot on WASH? What are the biggest challenges in terms of resourcing management? Is it more important to attract specific funds for water resourcing management or to mainstream a water resourcing management into all investments?

Francis Bougaire: water is important for all uses; water is the key to meeting all objectives of this millennium. We can consider that financing a secure water access, which means access to safe drinking water for all is a global approach. Depending on the priorities, on the situation in each case, as for example for Africa where there is a prevalence of poverty and diseases, water and sanitation issues are priorities. This is a priority in terms of life, survival, public health, and ensuring better living conditions. In terms of economics, water is addressed in all its dimensions, water for the environment is not neglected, on the contrary, and we also finance water in these areas and also in terms of transboundary basins.

Christian Severin: I agree with that, water is important in a lot if not all areas. A question for Leonard ; you were talking about access to safe water and water supply and the difference between 2018 and 2019. Can you extrapolate a bit about this statement?

Leonard Shang-Quartey: it is linked to the priorities. In 2020, water has been moved from the social sector to the infrastructure sector. You also look at the rural water, even though urban

water receives more than rural water. This is linked to the donors' presence in the sector. That is why we put emphasis on the government taking tax money to provide water services.

Christian Severin: it is important in this context that we continue to meet, even remotely.

Return to the plenary session:

Facilitator:

Christian Severin and Chris Burns: before we get everything on the screen, did you manage to find how to fill the gap in there? Yes, we start to print our own money (joking)

- We do need to look more at financial tools, national and international funding tools. It has to be a kind of break down.
- Cooperation is key, we are not able to go on if we do not share our experiences, so we need to share our experiences (successes and failures)
- We can go on for a while but it has to be a break down; the cooperation is key.

Christian Severin: it is interesting to share experiences because it can help avoid doing the same mistakes. In group 2, there were speeches from international institutions as the World Bank and the private sectors, and there must be a mix of both in discussions. Cooperation is key because that is how we can move forward. That is how you can know that brilliant things happen next door.

Christian Severin: it is wonderful to see that there is so much unity in the room. I hope we will continue this approach.

Chris Burns: It was a very interesting panel, and in the break-out groups too.

Chris Burns reminds the audience to stay active on social media and explains how participants can network together.

Final comments:

- **Groupe 1:**

Sonja Koeppel (summarized the discussion in group 1):

There are multiple crises; climate change, COVID-19, water, but in a way, they are all related. It is important to use climate funding for investments in the water sector. But we need to speak the language of the people from the climate sector. There must be an emphasis on water investments both in quantity and quality. It is also important to target the most vulnerable people, also to include women and gender aspects in different water projects. We had a discussion on private finance. There is a need to combine private and public funding. It is not easily done. Public-private partnerships can be an opportunity at

earlier stages, so they should be promoted. There is still a lot to do to combine the right tools for the right needs.

- **Groupe 2:**

Mrs. Sofie Aujean (final notes of the break-out groups):

We heard from different perspectives, from the banks, from the EU, from the civil society. Everyone agreed that business as usual will not lead to achieving the SDG6 by 2030. More funding is needed and of course, COVID-19 and the climate crisis have set more urgency. We must explore innovative financial mechanisms like the World Bank, the EU, the African Development have presented. Technical assistance is also an efficient tool and the EU can support that. We also need more donor coordination; this is where the Team Europe Approach will help a lot. To bridge the financial gap, we really need to mobilise taxes, transfers, tariffs. And we really need to take into account the reality on the ground, so affordability, distress, economic perception, etc. We need much more public-private partnerships including climate finance as the EU delegation in Lesotho mentioned with the EU Green Deal. And all this needs to be accompanied by steps to strengthen WASH systems. We all agreed that it is important to have more private funding, but we also need to do it in a realistic way.

The final word from Mr. Christian Severin:

The main takeaway is that cooperation, across all the different sectors, is very, very central and key if we want to try sustainable development and ultimately human prosperity. There is a lot to be done, but we need to keep with this journey together.

Questions and answers:

- Annukka Lipponen (UNECE/Water Convention) 01:41 PM

Are there serious cross-sectoral co-financing opportunities? Surely there are modalities for energy utilities to incentivize water utilities which are major energy consumers and the technology provides opportunities. In the long run this will improve the utilities balance sheets.

- roel martens 09:14 AM

Dear Annuka, very important point. Utilities can invest in water pumps running on solar power and this is a business. Yes, there are risks and opportunities: energy and other areas. So, it has happening in some countries: energy with wash!

- Monika Weber-Fahr 01:45 PM

Utilities - many - hold good potential for reducing their Green House Gas impact..opening up space for climate finance further.

- roel martens à Tout le monde (1:58 PM)

the 3T's are only a part of the financing of water. Budget surveys show that about 30% of water is paid for by households doing their own investment in water pumps, bore holes, water bottles, etc.

- Lars Skov Andersen à Tout le monde (2:00 PM)

Well spoken. Payment for water is key to community management and ownership, but must be topped up with ODA according to ability to pay. Lars Skov Andersen Danish Water Forum

- Samusodza à Tout le monde (2:04 PM)

effective monitoring, constant evaluation and implementation of effective maintenance of such infrastructure may also improve effectiveness of available financing models for WASH....

- Elise Van de Vyver_Incofin IM à Tout le monde (2:05 PM)

- Question for Chilufya: Incofin Investment Management is launching the Water Access Acceleration Fund (W2AF), an impact first equity fund that will invest in businesses to accelerate access to safe drinking water in Africa, Asia and Latin America, targeting directly SDG6. We are launching this Fund with Danone as Fund's sponsor and anchor investor. You mention that more financing is needed, also diversified type of financing, and do you believe this type of financing is important to support the access to safe drinking water and how can we ensure we optimize our investments by working together with other organisations such as WaterAid and DFIs?

- Neil Dhot à Tout le monde (2:07 PM)

what kind of projects and businesses will you invest in? It may be helpful to explain this so the audience can see what type of investment to access safe drinking water is feasible and can yield a return.

- José Frade, Freelance Consultant, WASH Finance à Tout le monde (2:18 PM)

- Hugh funding gap is the difference between demand and offer of financial resources. Addressing it requires looking to both, understand and manage it the best way as done for water (IRWM). WB study evidencing poor allocation of subsidies is an example of poor management of the OFFER side as lack of understanding of the 3Ts LIMITING FACTORS. Weak and fragmented services provision framework with no creditworthiness is one example of poor management of the DEMAND side of financial resources. I would like to listen the speakers sharing their opinion about it and the key role of a real-time financial strategy at country level. José Frade, freelance consultant, SWA adviser

- Sara Ahrari (Simavi, NL) à Tout le monde (2:31 PM)

While public participation is one of the human rights principles as was mentioned during the Key note speech, the technical people in WASH sector are not the best skilled to do it. How do you ensure that the financial incentives promote that, in particular for participation of the disadvantage groups and women?

- Harouna ABARCHI à Tout le monde (2:33 PM)

Bonjour tous, Céline Robert de AFD a parlé de gouvernance, inclusion et surtout échelle territoriale. Vous savez que le Sahel fait parti des zones les plus abandonnées en terme d'investissements surtout en matière d'eau et même là surtout pour ce qui concerne l'hydraulique pastorale. En zone pastorale vous pouvez parcourir 50 km sans points d' eau surtout au Niger. Pour n'est s'intéresser à l'hydraulique pastorale? Le

besoin est enorme. il faut reduire les ecarts entre les différentes pour permettre une bonne atteinte à aux ODD

- Mariet Verhoef-Cohen à Tout le monde (2:33 PM)

Involving women would be one step forward!

- Neil Dhot à Tout le monde (2:33 PM)

involvement of users and in particular women should be made a mandatory regulatory requirement.

- Chilufya Chileshe à Tout le monde (2:34 PM)

Elise - WaterAid is very keen to understand what models of private sector finance to WASH work. There are some examples but there are not many and we support continued learning on this and continue to advocate for unlocking private finance. We would be happy to have this discussion with you to understand what you are doing

- Matoya Wulff-AECID Bruselas à Tout le monde (2:36 PM)

Involvement of users has been key for the Spanish Cooperation in WASH in Latin America and the Caribbean since the launch of the FCAS (Fondo de Cooperación en Agua y Saneamiento- 800 M €) back in 2008. With very interesting lessons learnt!

Comment from the chat:

- Arnaud de Vanssay à Conférenciers et participants (2:48 PM)

EU just signed Climate Investor 2 grant to leverage equity for water investments with FMO and CFM - potentially up to €2 billion of investments over the life span of the fund. Please check here: <https://bit.ly/3isvfBD>

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- Yael Mason à Conférenciers et participants (2:49 PM)

Thank you so much for very interesting presentations and discussions

- Niclas Gottmann - DG INTPA à Conférenciers et participants (2:50 PM)

To set up meetings, find people to connect with at:

<https://waterandbeyond.b2match.io/participants>

- Arnaud de Vanssay à Conférenciers et participants (2:50 PM)

@Monika No, another funding for investments with a link with the Nexus approach

Niclas Gottmann - DG INTPA à Conférenciers et participants (2:50 PM)

Join us on Slack for informal chats and pitches at:

<https://app.slack.com/client/T01JGCH7G5A/C01HVEBJ423>

Questions from Zoom

Annukka Lipponen (UNECE/Water Convention) 01:41 PM

Are there serious cross-sectoral co-financing opportunities? Surely there are modalities for energy utilities to incentivize water utilities which are major energy consumers and the technology provides opportunities. In the long run this will improve the utilities balance sheets.

Stefan Reuter 01:42 PM

Attracting more finance for sanitation requires harmonized metrics measuring the outcomes, progress and impacts - do you feel Banks, Donors, governments and utilities have all that is needed? Where do you see the gaps EU programming can help filling to infuse the trust need for more investments??

Samusodza 01:43 PM

in Zimbabwe, for every purchase of electricity token a certain percentage of the total purchase value is sent to a rural electrification programme to promote access to electricity for the rural populations...im sure there is need to advocate for the same model to deal with WASH challenges

Arnaud de Vanssay

Thanks for this inspiring keynote. What was the main takeaway of your meeting with the finance ministers? How can we support you in this discussion?

roel martens

Dear Annuka, very important point. Utilities can invest in water pumps running on solar power and this is a business

EU just signed Climate Investor 2 grant to leverage equity for water investments with FMO and CFM - potentially up to €2 billion of investments over the life span of the fund. Please check here: <https://bit.ly/3isvfBD>

De Yael Mason à tout le monde: 02:49 PM

Thank you so much for very interesting presentations and discussions

De Niclas Gottmann - DG INTPA à tout le monde: 02:50 PM

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De Arnaud de Vanssay à tout le monde: 02:50 PM

@Monika No, another funding for investments with a link with the Nexus approach

De Sonja Koeppel (UNECE Water Convention) à tout le monde: 02:51 PM

Thank you to everyone; unanswered questions will be answered in writing
Financial session climate nexus see you then.