

Action Group 4A- - Mobilize additional financial resources and promote innovative funding (17.3, 2.A)

Proposal for actions – Synthesis Note

“**Means and Tools**” is one of the four priority areas of the 9th World Water Forum that will take place in Senegal in March 2021, under the theme “**Water Security for Peace and Development**”. Financing has been identified as one of the core themes of this priority, with the objective to “*mobilize additional financial resources and promote innovative funding*”. As part of preparation for the Forum, coordinators for the Financing Action Group revised the global context for the water sector and assessed the proposals submitted. The analysis evidences that despite the global effort, a sizeable proportion of the population is still without access to safe water and sanitation due to insufficient enabling environment, lack of planning and project preparation towards sustainable projects, which in turn leads to inadequate prioritization of water, sanitation and flood control in national development plans. In addition, inadequate financing and attention to water resources management in many countries threatens water security.

I. WHAT HAS BEEN DONE ON FINANCING IN PAST FORUMS AND WHAT ARE THE GAPS TO BE ADDRESSED

Water is at the core of sustainable development. Nevertheless, over 2 billion people have no access to safe drinking water and 4.5 billion are lacking access to safely managed sanitation. Water balance is challenged due to increasing demand for irrigated agriculture and for energy as population rises, and water availability and quality are becoming uncertain due to climate change. Projections of global financing needs for water infrastructure range from USD 6.7 trillion by 2030 to USD 22.6 trillion by 2050 including WASH needs, flood protection and rehabilitation of aging infrastructure. In addition, the global investment requirement in irrigation in developing countries is estimated to be USD 960 billion by 2050. In any case, the cost of inaction largely outweighs the cost of investment. Therefore, the investment gap stresses a need for a transformation on the way the water sector is financed and prioritized.

During the 8th Forum, sessions on finance focussed on practical applications of tariffs; taxes and transfers; best global practices to assess the value of water over its many dimensions; role of public funds also in leveraging private financing; and potential of blended finance mobilizing commercial financing products.

II. Main messages from the 8th Forum

- ■ Include payments for ecosystems services (PES) to promote nature-based solutions, financial and regulatory tools to achieve inclusive services (rural and periurban areas) and attracting new players, including the private sector.
- ■ Strong synergies exist between the water-related SDGs and adaptation to climate change targets. To achieve both, it is crucial to invest in water governance (integrity, transparency and accountability), and enabling environment at multilevel (national and subnational). These are key factors to mobilise additional financing tools, including domestic and climate finance.
- ■ Clear regulation is a prerequisite for public and private investments in water security, which can be effectively implemented through public/public and public/private cooperation. Multipurpose infrastructure -including water storage solutions- can contribute to the SDG's and adaptation targets and should be designed to maximize social and environmental benefits.

- ▪ Other innovative financing related to: nature-based solutions financing; microfinance for small-scale water services, and PPP approaches on irrigation, multi-purpose projects and water/wastewater services.
- ▪ Nonetheless, finance innovation needs to come along with an enabling environment and good governance, including improved institutional and regulatory arrangements to set out a better legal framework and long-lasting planning; and incentives to improve efficiency and creditworthiness on water service providers.

III. SCOPE OF EXPECTATIONS ON SUBSTANCE AND OUTCOMES FOR THE 9th FORUM

The key issues are well known:

- We are not on track to achieve the SDG's with current policies and financial efforts, specifically for water resources management issues, and for water supply and sanitation services;
- Inadequate prioritization of water issues in national development plans;
- Huge investment gaps:
 - Limited availability of funds for domestic operators and small-scale water service providers (SSWSPs).
 - Risk profile and difficulties in managing certain risks (e.g. political risk, foreign exchange risk).
 - Lack of funds at decentralized, regional and transboundary levels.
 - Short tenor of available financing.
 - Under-capitalized balance sheets.
 - Lack of understanding by external lenders and investors.
 - Lack of “bankable” projects” at all levels, including regional and transboundary basin level. - Lack of resources (affordability constraints at household level) for operation, maintenance, asset management leading to poor operational results; - Critical mismatch for promoting innovative financing mechanisms.

The expectations for outcomes are:

- Review and promote innovative mechanisms for financing the water sector development and clarify the modalities for their implementation : blended financing, repayable financing, microfinance, output-based aid; guarantees; risk insurance; devaluation backstopping facility; local currency financing, revenue agreements, municipal bonds, pooled funds, revolving funds, bond banks, impact bonds, instruments to increase sub-sovereign lending, equity contributions, convertible loans and project preparation facilities, promotion of traditional as well as innovative PPP, venture capital, community financing, impact investing;
- Set up conditions for creating enabling environments and capacities for increased funding in the water sector are identified; strengthen the capacity of countries by assisting them in the elaboration of master plans, final designs or feasibility studies to ease procedures and mobilize finance faster. Countries, municipalities and authorities need to build their capacity to leverage market instruments, since those are already established and efficient. This objective, in particular, will be closely coordinated with the activities of the Action Group 4B on effective multilevel governance
 - Open the doors (out of the water box): Reflect on which mechanism can be developed with other sectors (health, education, agriculture, etc.) to mobilize more funding for water and sanitation;
 - Help and promote governance tools: potential regional and/or country assessment and reporting on funding needs, mechanisms and roadmaps, in close engagement with 4B and event 4C (regulation) and 4D (integrity, transparency);
 - Build new relationships between countries or local authorities and IFI based on more confidence, less conditionality, shorter and simpler procedures

– Financing water also implies that other sectors, which have an impact on demand and the resource, should critically assess and ensure adequate mitigation measures before financing projects that increase pressure on the resource and exposure to risks.

– The emphasis on bankable projects is well known and should be complemented with emphasis on bankable projects that contribute to the water agenda. There is need for financiers to be interested in projects that have a positive impact on the water resource and the implementation of SDGs. This necessitates the thinking of restructuring bankable projects in an innovative way that satisfy both the objectives of bridging the financing gap through market responses as well as achieving the SDGs.

IV. Main actions

In this context, exacerbated by the effects of the pandemic, innovative and emerging financing mechanisms are crucial to reduce the investment gap. The action areas thus identified are:

1. Innovative and emerging financing mechanisms and implementation modalities
2. Financing water governance and capacity development
3. Meeting the challenge of financing sanitation: new tools and approaches.

ACTION 1: Innovative and emerging financing mechanisms and implementation modalities

Objective and expected results: To review and promote innovative mechanisms for financing development in the water sector, and clarify the modalities for their implementation. for the inclusive development and management of water (and sanitation) in line with SDG 6 and related SDGs

Overall SDGs Alignment: 2, 6, 8, 9, 11, 13, 17

Coherence with other Priorities: 1.F (resilience and adaptive capacity), 2.D (sustainable agriculture), 4.E (science, technology and innovation)

PROJECTS INCLUDED <i>In order of priority and level of impact</i>	OBJECTIVE	DESCRIPTION AND PURPOSE	EXPECTED RESULTS	SDGs ALIGNMENT	IMPLEMENTATION
Land Value Capture and convening communities of practice	Land Value Capture + bringing the water and urban infrastructure communities of practice together	Dialogue between actors from the water sector, representatives from local governments and representatives from the ministries of Finance Strategic investment pathways towards sustainable infrastructure and to drive a Green, Blue and Digital recovery post Covid19	Evidence from experts, practitioners and researchers showing and analyzing successful cases of Land Value Capture tools mobilized to finance water infrastructure	6, 11	Action started
Role of Development Banks in financing SDG 6	To increase the role of PDBs and DDBs in helping to cover the financing gap to achieve SDG 6	A collaborative survey and study in order to produce a reference document on past experiences, best practices and recommendations. An online side event at the Paris Finance in Common Summit	A report to be released in Dakar in order to highlight the historical key role played by PDBs in financing the water sector, to analyse best practices and to give recommendations both to PDBs and countries.	6, 13	Action started
Sustainable finance for utilities	Government responses to COVID-19 centred upon free water or payment freezes has further exposed the often-precarious nature of water and sanitation utility finance.	New models and mechanisms that inspire and reward utilities for thinking outside of their government budget need to be implemented alongside new methods for financing water and sanitation service provision	Raising awareness about the enhancements needed for water and sanitation utility finance is a primary outcome. Further outcomes would be for actors to be inspired by ideas/successes shared that they adapt or replicate	6, 8, 9	Action not started
Handbook on the Financial Means and Tools available for the Water and Sanitation sector	A large number of financing means and tools are available with a variety of terms and conditions. These would benefit from being consolidated.	A comprehensive handbook for financial means and tools available for the water and sanitation sector with a target audience covering all types of stakeholders: public, private, commercial banks, financial institutions, and intermediaries, NGOs, etc.	Handbook to be released during the 9th WWF Dakar; updated every 3 years and released on successive World Water Forums.	6, 9, 17	Action not started
Blended finance to accelerate water-related investments to achieve SDG6	The objective is to overcome barriers to financing flows towards the water sector and contributes to increasing	Blended finance identifies ways in which the strategic development of financing can support crowding in and scaling up of commercial finance to bridge the gap in water-related investments.	Guidance for policy makers, based on existing best practices, on how to improve the environment for enabling blended finance investments.	6, 2, 17	Action started



	investment in local and national institutions.				
Investments in nature-based solutions needed at global scale to help address water security challenges	A “how-to” guide for investors that are looking for opportunities to invest in nature-based solutions for water security.	This guide will be organized per areas of investment for the main types of NbS that appear more promising or rapidly scalable around the globe, including in the poorest countries, including wetland construction and rehabilitation; aquifer recharge; reforestation; improved agricultural practices.	The report will provide concrete ways forward to increase investments in some specifically identified areas where revenue streams can attract businesses and private finance.	6, 13	Action started

ACTION 2: Enabling environments and financing water governance and capacity development

Objective and Expected Results: To highlight the conditions associated with improved water governance, and identify capacity requirements needed to avail and utilise water sector improved capacity to develop, implement, report and monitor water sector master plans; and enhance stakeholder coordination frameworks to increase impact

Overall SDGs Alignment: 6, 8, 9, 10, 13, 17

Coherence with other Priorities: 3.E (Cooperation and capacity building), 3.F (stakeholder coordination), 4.B (governance)

PROJECTS INCLUDED <i>In order of priority and level of impact</i>	OBJECTIVE	DESCRIPTION AND PURPOSE	EXPECTED RESULTS	SDGs ALIGNMENT	IMPLEMENTATION
Improving the enabling environment in the G5 Countries (Sahel Region) through supporting a better monitoring	This project aims to improve the overall quality of data on the sector in the 5 Sahel countries (Mali, Mauritania, Niger, Chad, Burkina Faso), with a view to	To accelerate the implementation of programs of access to water and sanitation through both better coordination between the actors (States, donors), better monitoring of their actions and better targeting	Construction of a sector and Project’s roadmap with each of the 5 countries by the end of 2020 Their content may be discussed during the WWF, including with other DFIs. Launching of	6, 10, 13	Action started



and planning of the water and sanitation	strengthening the capacities of local authorities.	of needs, thus improving the enabling environment to attract financings toward the sector.	the first TrackFin cycle in Mauritania, Niger and Chad; strengthening of the TrackFin cycles in Mali and Burkina Faso (2021-2023).		
A support framework for donors and other partners to develop long-term strategic plans for companies in the WASH sector	An overview of current and future infrastructure needs in Africa and an assessment of the amounts needed to finance them.	Part of the improvement of the WASH infrastructure financing framework, it will allow companies in the sector to have a clear idea of their long- and medium-term financial needs and at the same time facilitate mobilization of funds necessary for their realization	It will allow the development of a financing plan concerted with partners and even consolidated on a sub-regional scale with public and private funds. This will also provide a basis for discussion with the various financial partners and to be able to study the various financing possibilities.	6, 9, 17	Action started
Coordination in action: Financing for water and sanitation in Ethiopia	Financing Roundtable to develop and provide guidance to the Ethiopian government actors on how to implement sustainable financial solutions.	Members of this working group and a few of their government allies will discuss and share their experience moving policy from paper to practice and the spoken and unspoken rules of engagement when development actors engage with Government.	Expecting that people will a) be interested to follow the progress of Ethiopia moving forward in WASH access and b) seek guidance in starting domestic WASH finance working groups.	6, 17	Action started
“Innovate 4 Water” - A series of marketplaces for sustainable development	A series of 2-day marketplaces on the road to Dakar 2021 to build bridges between the private sector and all the other key stakeholders leveraging water-related sectors opportunities.	Bringing together curated water stakeholders, such as large and small-scale private and public service providers, youth and women entrepreneurs, impact investors, governmental and non-governmental organizations, UN agencies, incubators, and accelerators, to build dynamic local ecosystems who can channel responsible finance towards job creation in impactful solutions	Strengthened impact investment market in a given region and de-risking of market-based projects. Creation of local integrated approaches. Action-oriented partnerships formed for impactful implementation, market-based solution-driven networks created.	6, 8, 9	Action started
Roundtable on Financing Water	A global public-private platform established to engage a diversity of actors focused on finding novel ideas and solutions	The action contributes to three streams of work: i) monitoring financing needs and capacities in several world regions; ii) documenting and promoting approaches and mechanisms that contribute to financing water-related investments; iii) promoting enabling environments and conditions that accelerate financing water-related investments.	Tangible outcomes include new data and comparative analyses of financing gaps and capacities, strategies to bridge the gap, financing instruments and their enabling conditions. The main messages will be captured in an interim report, to be discussed and enriched at WWF9.	6, 9	Action started
Comprehensive Approach to the Policy, Institutional and Regulatory Enabling Environment to boost Water Sector Financing	The World Bank, AFD and CAF have launched a series of initiatives to support their client countries to increase access to commercial finance through a stronger policy, institutional and regulatory (PIR) enabling environment	Includes a series of events bringing different stakeholders together, showcasing experiences with the use of the financing instruments mentioned above to advance sector reforms, and preparation of an analytical piece on the subject to develop evidence-based initiatives that are expected to build advocacy on the need to improve the PIR enabling environment as a necessary condition to increase financing to the sector	Two events on PIR and Financing. Case studies on the use of MDBs Financing Instruments. Issues Paper. Session at WWF. A selection of some cities / countries engaging in a roadmap for improved policy, institutional and regulatory enabling environment	6, 17	Action started
Challenges and prospects in financing integrated water resources management and water security	AFD and TNC have partnered to work on pilot cases to explore the role of private sector partners in financing water security in contexts where regulatory and financial arsenal is less mature.	The partnership also includes the preparation of a guidance document for development finance institutions (DFIs) on how to promote such approaches in their financings, with the intention for this guidance to be usable by DFIs around the world, as well as other types of public and private financiers where appropriate.	Guidance document for DFIs for presentation / dissemination during the WWF; pilot case implemented at water basin scale (Dakar in Senegal and Mombasa, Kenya)	6, 13	Action started

ACTION 3: Meeting the challenge of financing sanitation: new tools and approaches

Objective and Expected Results: To Identify existing and emerging models that show promise in increasing financial resources available to address the challenge of inadequate sanitation and scale-up of financially sustainable approaches, particularly by SMEs that target access to improved sanitation

Overall SDGs Alignment: 6, 8, 17

Coherence with other Priorities: 1.B (Waste management), 2.B (rural sanitation), 2.C (sanitation facilities)

PROJECTS INCLUDED <i>In order of priority and level of impact</i>	OBJECTIVE	DESCRIPTION AND PURPOSE	EXPECTED RESULTS	SDGs ALIGNMENT	IMPLEMENTATION
Funding and supporting small and medium-sized enterprises in the water and sanitation sector: Cambodia	SME's can bring new and adaptive solutions to the challenge of universal access to water. However, few development projects have aimed to support and finance them.	SMEs face significant problems in accessing finance. In 2015, AFD, the WB and the EU initiated a meso-finance project in Cambodia supporting small local private operators through a national bank. This project will identify the key lessons learned; replicate and scale in other contexts (other sectors and other regions, in sanitation and in West Africa in particular); and enhance the development of meso-finance by capitalizing on the conditions necessary to facilitate this type of assembly.	During the preparatory process, produce a communication on the Cambodian case and create a space for dialogue. During the Forum, organize a session to initiate other projects of this type while setting common monitoring indicators. In 2022, organize a time for exchanges and restitution on new projects.	6, 8	Action started
Financing mechanisms to realize the African Sanitation Policy	AMCOW is working with technical experts to complete the first African Sanitation Policy Guidelines. At the 9th WWF, Water.org and AMCOW will explore how various financing tools can be harnessed by AU countries	The document will include recommendations focused on financial mechanisms and tools that can be utilized in pursuit of accomplishing the targets of the Policy Guidelines. The African Sanitation Policy Guidelines will be launched in November.	Expect that more stakeholders become familiar with the array of financing mechanisms available for financing sanitation as aligned with the African Sanitation Policy Guidelines and start implementing them over the next few years, with some good success stories to be shared at the 10th WWF.	6, 17	Action not started

V. Annex

Detailed projects