PUBLIC FINANCE for WASH

FINANCE BRIEF
APR 2015 **04**

DRM AND WASH IN THE FINANCING FOR DEVELOPMENT AGENDA

This Finance Brief summarises the increasing relevance of Domestic Resource Mobilisation (DRM) in supporting the ambitious goals of the Sustainable Development Agenda. It details how DRM is understood in key documents being prepared for the Financing for Development global meeting and what needs to happen to make public and private domestic finance relevant for supporting universal access to water, sanitation and hygiene (WASH).

The last discussions on financing for development took place almost 15 years ago when the Millennium Development Goals were adopted. In July 2015, UN member states will meet at the Third Financing for Development Conference in Addis Ababa. The meeting will result in an intergovernmental negotiated and agreed outcome on how to finance development through public and private finance, both domestic and international.

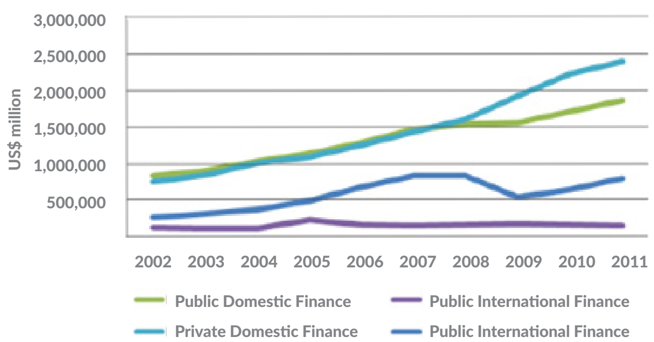
> *"Financing needs are huge and the challenges in meeting them are enormous – but surmountable. Indeed, global public and private savings would be sufficient to meet the needs."*
>
> *– United Nations, 2014*
> *Report of the Intergovernmental Committee of Experts on Sustainable Development Financing*

TOWARDS ADDIS: THE ROLE OF DOMESTIC FINANCE FOR WASH

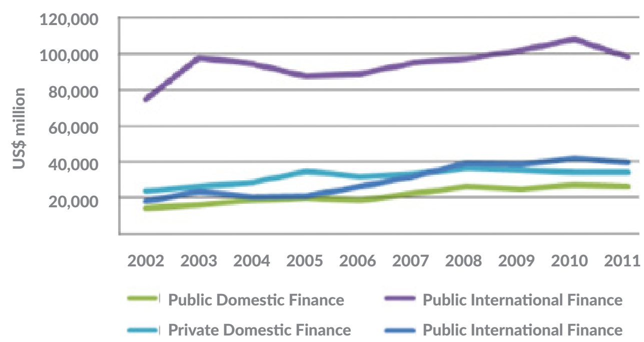
The Zero Draft[1] of the Outcome Document towards Addis recognises that to ensure access to water and sanitation will rely primarily on domestic public resources, supported by international cooperation. It proposes an increase in public spending to secure adequate investments to ensure universal access to basic social infrastructure. Sustainable and resilient infrastructure on the other hand, will entail both international private and public investments.

The primary roles for domestic public finance in the report of the Intergovernmental Committee of Experts on Sustainable Development Financing are: a) increasing equity; b) providing public goods and services that markets don't or enacting policies to change incentives of private sector; c) managing macroeconomic stability, and d) ownership of public policy and financial autonomy[2]. The report identifies that since 2002 all types of finance have increased. Domestic public finance in developing countries more than doubled between 2002 and 2011, increasing from US$ 838 billion to US$ 1.86 trillion. This growth reflects mainly the progress in middle-income countries (see graphs). Domestic public finance also doubled in low-income countries, though it remains insufficient to meet sustainable development needs.

Development finance, all developing countries



Development finance, least developed countries



Source: UN (2014) Report of the Intergovernmental Committee of Experts on Sustainable Development Financing

INCREASING LOCAL TAXATION

The Zero Draft states that countries where tax revenue is less than 20% of GDP will need to spend a minimum of USD 300 (purchasing power parity) per person or 10% of GDP to provide essential public services. Social services such as health and education are mentioned but not water and sanitation. At present tax revenues account for about 10-14% of GDP in low income countries, which is about one third less than in middle income countries, and significantly less than in high income countries, which achieve tax to GDP ratios of 20-30%.

Recent OECD[3] report found that in 2012, in low income countries the tax to GDP ratio has been stagnant for several decades. 32 African countries collected less than USD 1 of tax per person. The amount of aid that goes towards supporting tax systems is 0.1% and the amount of aid that goes to tackling loss of money through illicit financial flows is unknown or inexistent.

There is a global commitment in the Zero Draft to substantially increase international aid and technical assistance for increasing tax and fiscal management capacity in low income countries. Given that there are limits to how much governments can increase domestic revenues, the zero draft commits to a global campaign to substantially reduce international tax evasion. However, currently, more than 100 low income countries are not included in the OECD and G20 processes to tackle international and regional tax policies and standards.

Civil society organisations emphasise the importance of progressive taxation instead of only focusing on the amount of tax collected[4]. Increasing the tax base in a progressive way implies shifting the burden of taxes away from people living in poverty, the majority of whom are women, towards highly profitable sectors. A tax/GDP measure can create negative incentives to increase tax without taking into account negative impact on development and increasing inequalities.

In the WASH sector, responsibilities for sustainable services are being devolved to the sub-national level and municipalities which often lack adequate technical and financing capacities. This means that assistance will be required not only for accessing the funds required for the development and maintenance of infrastructure, but to raise progressive and gender sensitive local taxation for WASH services.

BLENDING PUBLIC AND PRIVATE LOCAL FINANCE

Given the large gap in financing for resilient infrastructure, the zero draft recognises the need to mobilise and unlock the power of trillions of dollars of private resources, but also that business practices need to be more in line with sustainable development objectives and with investments which are longer term in nature. Private finance has also been slow to take off in WASH compared to other sectors, partly because many market-based approaches in WASH are very early stage and are a long way off being able to repay an investment. For instance, the cost of building demand for WASH and changing behaviour is a particular challenge.

Blended finance (a combination of grants with loans and equity from public and private sources), pooled financing mechanisms and public-private partnerships (PPPs) show potential. However, in the water sector there is only anecdotal evidence on the success of PPPs to improve services at scale in low income areas. The Zero Draft mentions that PPPs should not replace or compromise state responsibilities, nor should they impose unsustainable debt burdens on governments. To ensure this, feasibility studies should demonstrate PPPs are the most effective way to structure the investments, there should be a required public disclosure of committed public and private finance and the risk sharing arrangements between the public and the private sector.

WHAT NEXT?

Low income countries are using the international process towards Addis to voice that the primary role of public finance is to ensure sustainable development. Understanding and influencing public finance for basic services like water and sanitation requires professionals in the sector to take into account the high-level national processes (e.g. national budget allocations to WASH) but also local processes (e.g. local taxation systems), and processes of fiscal decentralisation.

1 UN (2015) Zero Draft http://www.un.org/esa/ffd/wp-content/uploads/2015/03/1ds-zero-draft-outcome.pdf

2 UN General Assembly (2014) Report of the Intergovernmental Committee of Experts on Sustainable Development Financing

3 OECD (2014) Development Co-operation Report 2014: Mobilising Resources for Sustainable Development

4 Social Watch (2015) Civil society Response to the FFD Elements Paper http://www.europarl.europa.eu/meetdocs/2014_2019/documents/deve/dv/16777_/16777_en.pdf

PUBLIC FINANCE for WASH

The Public Finance for WASH initiative is grounded on two principles: i) that sustainable universal provision of high-quality water and sanitation services is fundamentally dependent on progressive domestic taxation systems, and that consequently ii) WASH-sector donors, donor-funded NGOs and in-country actors need to pay greater attention to ensuring that ODA is delivered in ways which support the development of effective and equitable domestic public finance systems.

WSUP Water & Sanitation for the Urban Poor
IRC Supporting water sanitation and hygiene services for life
trémolet consulting infrastructure | economics | policy