



GLAAS

UN-Water Global Analysis and Assessment
of Sanitation and Drinking-Water

WORKING PAPER

Tracking national financial flows into sanitation, hygiene and drinking-water

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Printed by the WHO Document Production Services, Geneva, Switzerland

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Executive summary

Effective financing for water, sanitation and hygiene (WASH) is essential to accelerate and sustain services that could ultimately save two million lives per year. Inadequate monitoring and limited availability of financial data impede the ability of countries to assess progress and improve performance. An internationally agreed standard methodology for tracking financial flows to WASH at the national level does not exist at present. This working paper argues that developing such a common methodology is required and feasible.

What do we know about financial flows in the WASH sector?

Our current understanding of financial flows to the WASH sector at the national level is limited, with numerous gaps. Attempts to undertake global reporting and monitoring, including through the UN-Water Global Analysis and Assessment of Sanitation and Drinking-Water (GLAAS) in 2008, 2010 and 2012, have not been fully satisfactory and do not provide sufficiently robust evidence for policy-making at the national level.

Core funding for the sector can come from three main sources: tariffs (from households as users of the service), taxes (from domestic taxpayers via government institutions) and transfers (from entities that make voluntary contributions, such as international donors or philanthropic organizations). Repayable financing from private or public sources can also be used to bridge a temporary funding gap.

Whereas transfers from Organisation for Economic Co-operation and Development (OECD) donors are tracked with some accuracy (although not in sufficient detail to fully inform policy-making), data on domestic government spending and private spending (mostly from households via tariffs or direct investments) can be either incomplete or unreliable. Financial flows for which data are unreliable are seldom taken into account, which may result in a distorted understanding of current financing and potentially wrong policy decisions.

This limited understanding is partly due to the fact that the sector is complex, typically with four main subsectors with different institutional setups, various financing sources and financing channels, and a mix of service providers, including public and private ones. As a result, consolidated data are seldom available at the national level and are therefore difficult to compile on a comparable basis at an international level.

What recent initiatives have been undertaken to improve our understanding of WASH financing?

Several initiatives have been undertaken by a wide range of actors, including the World Health Organization (WHO), OECD, the World Bank, the Water and Sanitation Program (WSP) of the World Bank and WaterAid (an international nongovernmental organization [NGO]), to improve tracking of financial flows in the WASH sector. These initiatives have greatly improved our current understanding of financial flows to the sector, particularly in the set of countries where they have been conducted.

Most of these initiatives have been designed to assess whether sector targets, particularly the Millennium Development Goals (MDGs), are likely to be met and to identify how much additional financing may be needed to increase coverage. This has resulted in a strong focus on capital expenditure and identifying sources of funding for such capital expenditure, rather than adopting an overall “sector financing” approach and examining in detail what may be needed to operate and maintain existing assets.

These initiatives have all faced comparable difficulties and limitations in terms of access to comprehensive and reliable data. They have typically required substantial external inputs rather than

being “owned” by the countries; as such, they have often been carried out in a limited number of countries as “one-off” exercises rather than being institutionalized.

Even though methodologies have been developed and internationally accepted, as with the System of Environmental-Economic Accounting for Water (SEEA-Water) developed by the United Nations (UN) Statistics Division, the WASH sector has not yet applied a global framework for tracking sector financing at the national level and beyond. By contrast, a commonly accepted methodology to track sector financial flows has been used for both the health and education sectors. National Health Accounts (NHAs), for example, have been developed for more than 100 countries, based on a commonly accepted methodology developed by WHO and the OECD.

Is there a need for a shared reporting framework on financial flows in the WASH sector?

There is a common agreement that a better understanding of financial flows in the WASH sector at the national level is critical to support policy development and implementation, as well as to encourage better utilization of existing funds and attract additional financing to the sector. However, there is also a consensus that this is a difficult and challenging task, especially considering the poor state of current financial data in the sector.

We recommend that a commonly accepted methodology for tracking financial flows in the WASH sector at the national level be developed, preferably by leading WASH sector organizations in partnership. This shared methodology should be developed in an iterative manner. As a result, we have proposed what the immediate coverage and the long-term objectives of the financial tracking exercise might be, as summarized in Table E.1.

Table E.1. Proposed scope and objectives of the tracking exercise

	Immediate coverage	Future developments
Proposed objectives	<ul style="list-style-type: none"> Track actual expenditure in the sector over a small number of years (2–3) Evaluate capital stocks invested in the sector at a given date 	<ul style="list-style-type: none"> Track actual expenditure in the sector over a longer period Define and track “value-for-money” indicators For taxes and transfers, compare planned expenditure (or commitments) with actual expenditure
Proposed scope	<ul style="list-style-type: none"> Funding for all activities to provide sustainable WASH services All costs (including capital expenditures, operating expenditures, capital maintenance, support costs) All financial sources (tariffs, including household contributions, taxes and transfers) Formulate transparent assumptions and rely on surveys based on samples where no reliable data exist 	<ul style="list-style-type: none"> Identical scope as for immediate coverage Improve methodologies and coverage of data collection in subsequent exercises

What could be the basic features of a common methodology for tracking financial flows?

This working paper lays out basic proposals for a common methodology to track financial flows at the national level. The proposed methodology has been developed based on learning from NHAs in the health sector and similar initiatives in the WASH sector. This methodology will then be developed in the context of a multicountry testing study in order to allow for the methodology to be refined and rolled out globally for GLAAS 2014.

The objective of the methodology is to improve our understanding of current expenditure in the WASH sector so as to answer four basic questions:

- What is the total expenditure in the sector?
- How are the funds distributed to the different WASH services and expenditure types?
- Who pays for WASH services, and how much?
- Which entities are the main channels of funding for the WASH sector, and what is their share of total spending?

This working paper outlines a process that countries will need to go through in order to derive more comprehensive and reliable estimates of spending on WASH at the national level. This requires:

- agreeing on a common definition of the WASH sector boundaries in terms of services;
- agreeing on a classification of service providers, financing agents, cost categories and financial sources;
- agreeing on a set of matrices and indicators to facilitate the analysis of financial flows at the national level, to enable cross-country comparisons and aggregate data at the global level.

How can this methodology be developed going forward?

Reaching consensus on a commonly agreed methodology and subsequently rolling it out to a large number of countries will require a process of consensus-building among sector actors. A developed methodology could take the form of a compilation manual focusing on investment and financial flows for drinking-water and sanitation and providing practical guidance for countries to implement it.

This process will have to be carried out over a number of years, based on the following actions:

- ***Build on existing partnerships or establish a dedicated partnership between leading sector actors to develop a common methodology comparable to NHAs.*** This partnership could include, for example, WHO, the World Bank/WSP, the OECD and the UN Statistics Division, as well as Sanitation and Water for All, NGOs (e.g. WaterAid) or research centres (e.g. the IRC International Water and Sanitation Centre) that have carried out substantial amounts of work in this area. This partnership could finance the rolling out of this methodology in a large number of countries, as well as conduct more detailed studies for specific methodological issues as needed.
- ***Establish a Technical Advisory Group to oversee the results of the testing study and refine the methodology.*** This group should include representatives from a sample of national governments (including statistics institute, ministry of finance, ministry of water, ministry of environment), international experts on WASH sector financing and experts on the System of Health Accounts (SHA) and NHAs.
- ***Develop an iterative plan to improve the methodology gradually.*** It will be important not to “overburden” national governments to start with, but to aim for a reporting framework that could be owned and implemented by national actors, applied all the way down to local governments and commonly accepted (i.e. the equivalent of an NHA system).
- ***In each participating country, identify an institution in charge of supervising the data gathering process and “hosting” the data over time, so as to allow continuity.*** The “host” institution may differ from country to country and will need to be identified following consultation among active sector partners.

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List of acronyms

3Ts	tariffs, taxes and transfers (sources of finance)
AICD	Africa Infrastructure Country Diagnostic
AMCOW	African Ministers' Council on Water
CRS	Creditor Reporting System
CSO	Country Status Overview
DAC	Development Assistance Committee (OECD)
EFA	Education for All
GDP	gross domestic product
GLAAS	UN-Water Global Analysis and Assessment of Sanitation and Drinking-Water
IBNET	International Benchmarking Network for Water and Sanitation Utilities
IRC	IRC International Water and Sanitation Centre
ISIC	International Standard Industrial Classification of All Economic Activities
JMP	WHO/UNICEF Joint Monitoring Programme for Water Supply and Sanitation
MDG	Millennium Development Goal
MTEF	medium-term expenditure framework
NEA	National Education Account
NGO	nongovernmental organization
NHA	National Health Account
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
PER	public expenditure review
PPP	purchasing power parity
PRSP	poverty reduction strategy paper
SEEA	System of Integrated Environmental and Economic Accounting
SEEA-Water	System of Environmental-Economic Accounting for Water
SFP	strategic financial planning
SHA	System of Health Accounts
SNA	System of National Accounts
UIS	UNESCO Institute for Statistics
UN	United Nations
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
UOE	UNESCO/OECD/Eurostat
USAID	United States Agency for International Development
WASH	water, sanitation and hygiene
WHO	World Health Organization
WSP	Water and Sanitation Program (World Bank)
WSS	water supply and sanitation

1 Introduction

The objectives of this working paper are twofold:

- to determine the state of the evidence on the monitoring and reporting of financial flows to the water, sanitation and hygiene (WASH) sector at the national level;
- if knowledge gaps are confirmed, to identify the key tenets of a methodological framework that could significantly improve our understanding of financial flows in the WASH sector and be rolled out in a large number of countries as part of UN-Water Global Analysis and Assessment of Sanitation and Drinking-Water (GLAAS) 2014 and beyond.

The problem: a need for improved financial data in the WASH sector

Delivering sustainable WASH services for all requires mobilizing ongoing financing flows to the sector. Forming a good understanding of the financial flows into the sector (both recurrent expenditure and investment) is essential in order to assess whether existing funds are being efficiently used to deliver services, whether they are adequate and how they may need to be increased so as to extend access, to reach the water and sanitation Millennium Development Goals (MDGs) and beyond, and to ensure that services are delivered on a sustainable basis. Such data can help with monitoring progress towards achieving targets, benchmarking performance within and across countries, estimating future needs, mobilizing additional financial resources (if necessary) and helping to ensure value for money.

At present, there are substantial gaps in the current understanding and tracking of financial flows in the WASH sector at both the national and international levels, especially when compared with other essential services, such as health and education. A number of recent initiatives have been undertaken to fill those gaps, but none of these initiatives have been endorsed at the global level or are planned to be repeated over time and institutionalized.

The context: development of the GLAAS report methodology

The objectives of the UN-Water Global Analysis and Assessment of Sanitation and Drinking-Water report (hereafter referred to as the GLAAS report) are to enhance the evidence base in order to identify the bottlenecks that slow down progress towards sanitation and water for all and to highlight the challenges that need to be addressed by the sector. UN-Water tasked the World Health Organization (WHO) with publishing the GLAAS report for the first time in 2008.¹ The GLAAS report analyses the different inputs into the WASH sector, highlighting the major drivers and bottlenecks, whereas the WHO/United Nations Children's Fund (UNICEF) Joint Monitoring Programme for Water Supply and Sanitation (JMP) report assesses sector outcomes through the measurement of the use of improved drinking-water and sanitation facilities. The GLAAS report is a

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