

“Financing a Leaking Bucket”

- Rolfe Eberhard

I was struck by the clear consensus that emerged from the financing sessions at Stockholm Water Week. This consensus is best described in the form of an analogy where a bucket represents existing financial flows into the water sector. To close the SDG financing gap, we need to both fix the leaking bucket and fill more buckets. At the moment, the sector leaks badly! A typical inefficient urban water utility effectively wastes up to half of the financial resources available to it. Moreover, existing financial flows are not large enough to deliver safe drinking water to all. To meet SDG 6.1 in urban areas, at least two additional buckets are needed. We know that these additional buckets will need to be filled with a substantial share of commercial finance, and that this money has to be repaid. Clearly, financiers are reluctant to pour more water into a leaking bucket. Thus, the two components – fixing the bucket and creating more buckets – are inextricably linked.

The good news is that it is both possible and practical to fix the leaking bucket. GIZ’s “Access study”, presented in Stockholm, showed that urban water utilities, when well-managed, can achieve both high levels of access to piped water and raise sufficient revenues to repay loan finance – the two are not mutually exclusive. In fact, commercial finance serves to reinforce good governance and an ongoing commitment to management effectiveness. The data show that good utility performance is possible even in poor countries and in challenging country-level governance contexts. In other words, specific local conditions may be more important than the more general country conditions.

Some key questions emerged from the discussion of this study in Stockholm: Can development aid and financing be used as a catalyst for effective utility management? Is it possible to identify and incentivize the core conditions necessary for effective utility management? And can finance flow preferentially to where these conditions exist or can be created? How can finance be sequenced so that operational improvements follow from a credible commitment to these core conditions, and so that infrastructure investments take place in a context where they can be much more effectively used and sustained?

The even better news is that these questions will be robustly discussed in Frankfurt at the water sector financing conference jointly hosted by GIZ and OECD on the 4th and 5th October. I hope you will not miss the opportunity to contribute to this important event.

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

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