CLIMATE AND WASH WEBINAR SERIES: WEBINAR 2

COP28 in Context: Insights on WASH Financing

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"Water is to *adaptation*, as energy is to *mitigation*" – Monica Altamirano de Jong, PhD

In late February 2024, on the heels of COP 28, e-MFP's WASH Action Group hosted a new Webinar in the Climate and WASH webinar series, centering on what COP 28 means for WASH financing.

Moderator and Speakers

Moderator:
Mónica Altamirano de Jong serves as WaterEquity's Director for Climate Impact, leading the integration of climate and water resource management principles into investment decisions.

Speakers:
Jorge Alvarez-Sala is a water and sanitation specialist with over 20 years of international experience in the sector, having worked on every single continent. He is currently working with UNICEF in New York.

Dr. Max John Wengawenga is Deputy Director of Policy and Planning in the Ministry of Water and Sanitation in Malawi. He oversaw the development of the Malawi Climate Resilient WASH Financing Strategy 2022-2032.

Key Learnings

By 2025, roughly half of the global population will reside in water-stressed regions. This strains water sanitation systems, disproportionately impacting vulnerable communities. UNICEF identifies 436 million children in high water-vulnerability areas, affecting around 1.4 billion individuals when considering their families (see Presentation for sources).

For **every dollar** invested in water, there is at least **five dollars** of return on investment.

What COP 28 means: the toplines

COP 28 was historical and very important for WASH. Climate negotiations were split into 2 pillars: *mitigation* and *adaptation.*

On mitigation, water was included in the global stocktake. As the global stocktake "calls on Parties to take actions towards achieving, at a global scale, a tripling of renewable energy capacity and doubling energy efficiency improvements by 2030," this means an understanding of water and WASH's contributions to Nationally Determined Contributions (NDCs) are considered as well. In addition, partners have committed to review their NDCs – what each country is committed to do to address GHG emissions.

The other pillar is *adaptation* – which has seen major developments. After years of negotiations, finally all countries in the world agreed to approve the Global Goal on Adaptation Framework (GGA), prioritizing seven thematic areas, one of which is **climate-resilient water supply** and **climate-resilient sanitation**. Water resource management and other elements of water supply for socio-economic development, such as irrigation, are also part of the GGA priority areas. **This is quite new and likely to be a game changer in how water is positioned in the climate finance environment, leading ostensibly to higher prioritization and therefore more capital allocation towards water adaptation issues.**

Along these lines, UNICEF recognizes that water can be a universal focus for climate change adaptation *and* mitigation, and for achieving the SDG agenda.

Discussions are still ongoing within the GGA forums on how to move forward with the definition of metrics to measure adaptation *at scale*. UNICEF is currently working alongside WHO and hundreds of other partners (one of which is Aqua for All) to define what *climate resilient WASH* is. **There needs to be consensus within the sector. This leads us to taxonomies.**

Water vulnerability taxonomies are crucial

One key concept UNICEF and other organizations operate with is water *stress* - the ratio of total water demand to available renewable and surface and groundwater supplies, laying at the nexus between *demand* and *supply.*

Yet there is also the concept of **water *vulnerability,*** arguably more telling, which is determined by water stress, groundwater availability, interannual availability, seasonal variability, drought events, drinking water service levels, and the population density.

These taxonomies will prove crucial as experts work to determine a common taxonomy for *climate resilient WASH* – it is understood that water vulnerability may offer a more robust lens through which to understand investment risk and potential.

UNICEF is working with partners to re-imagine the WASH sector through four different investment packages

Around the world, 2.2 billion people suffer from lack of access to sufficiently safe and effective WASH services, as they live in areas of high climate risk. Some lack any and all access to safe services, while others can access services which are underperforming.

UNICEF's Water Security for All (WS4A) initiative, which aims to reach the 1.4 billion people that live in areas affected by high or extremely high water vulnerability, is shifting their 1 billion USD portfolio to make it resilient to climate change effects. And as UNICEF works with partners, this shift is not only happening at the organization level, but in the entire sector.

Investment Package	Description
Shift	Investing in initial steps towards climate-resilient water supplies. Supporting governments with climate risk analysis and testing solutions.
Catalytic	Providing capital injections to help countries unlock larger climate finance investments for developing climate-resilient water supplies.
Scaling-up	Investing to expand water services to underserved populations and upgrade existing services to withstand climate change impacts.
Solar hub	Investing in support hubs in specific regions to provide expert guidance for expanding the use of solar energy in water supply systems.

To achieve Water Security for All, we need to invest in **safe and affordable drinking water services,** build **climate-resilient Water, Sanitation and Hygiene (WASH) services and communities**, **prevent water scarcity crises through early action** (such as water resources assessments), and strengthen **water cooperation for peace and stability.**

UNICEF notes that some people still perceive the SDG agenda and the climate agenda as competing forces, some asking - why talk about SDGs when we already have the climate crisis hitting everywhere all at once? Jorge believes instead that there are many synergies between the two agendas, and the Global Goal on Adaptation framework synthesizes these agendas well. On a final note, there is a sense in many ways that finance experts and WASH engineering experts speak different languages.

The case study: Malawi

One of the more water-vulnerable nations worldwide, Malawi aims to ensure that 65% of the population can access improved WASH services (SDG 6.1.2) by 2030. **Malawi suffers from extreme weather events (**for instance, cyclones), which take a toll on an already struggling infrastructure. More *preventative maintenance*, and building ***resilient infrastructure,*** which is cheaper in the long run, is required. This aligns with findings that investing *now* will create a greater pay off *later*, as highlighted in our last webinar.

Yet the country faces bottlenecks to financing due to sectoral issues, it must make public utilities profitable to attract private investment, and as often occurs, water tariffs present a political and social problem: how can Malawi find a rate which works?

> To address the outlined issues, the government is focusing on the following: reducing non-revenue water and boosting revenue, minimizing the need for rehabilitation through increased preventive maintenance, lowering long-term operational costs via investments in renewable energy, allocating a higher budget to the sector and related areas implementing performance-based mechanisms increasing climate funding, promoting market-based approaches, annually reviewing tariffs, enhancing billing and collection systems, segregating VAT from water bills, assisting city councils in formulating business plans for fecal sludge management units, and regulating neighborhood areas and fees for waste operators.

Regarding performance-based mechanisms vis-à-vis climate finance, the Malawi Government has started a project with the World Bank, wherein if a firm performs well, it can unlock more financing. They will also try to take advantage of the facilities announced at COP28.

Q&A and discussion

Question to Jorge (UNICEF): How does UNICEF understand the role of the private sector in enabling more quality investments. Within that role, how is it different between, say, the level of an international corporation as opposed to a local company?

The WASH sector requires a massive amount of money, in the order of 114 billion USD/year, and not only for infrastructure, but also services. We need to differentiate between those who are working on the service provision, such as large water operators, and those SMEs of rural water supply systems who are dislodging larger companies in delivering services to end users.

In finance, distinguishing between blended finance and micro-finance is crucial. Access to affordable finance for local entrepreneurs, especially in developing countries, remains a challenge due to perceived risks. UNICEF stresses the importance of de-risking strategies to bridge the gap between investor expectations and end-user capacity to pay.

Question to Dr. Wengawenga (Government of Malawi): What are some examples of types of projects that will be financed in Malawi, and how do they come to shape those projects?

In Malawi, we are guided by the Malawi Vision 2063, where we have outlined priority areas, so in this sector we are looking at water supply schemes, dams, the issue of catchment area management, as well as issues of wastewater treatment plants.

Question to Jorge (UNICEF): There is a shift in WASH financing, but what barriers does UNICEF see for the use of Public-Private Partnerships (PPP)? What tradeoffs and challenges do they face, and what are some of the lessons learned?

Expanding on de-risking, there's ongoing discussion about the creditworthiness of service providers, particularly highlighted by the World Bank. Political factors often lead public water utilities to operate at a loss, making it challenging for them to secure loans. Tariffs are a significant issue, and often the elephant in the room regarding creditworthiness, as raising them is unpopular. Evaluating the true cost of services is crucial to determine creditworthiness and enable access to finance. De-risking plays a vital role in making potential clients of micro-finance institutions creditworthy.

Question to Dr. Wengawenga (Government of Malawi): What are some more delivery models, and levels of private sector participation that Dr. Wengawenga sees as possible for different market segments? What is a no-go area for the private sector, for instance?

Based on his experience, the biggest area where the private sector is needed is in financing, from commercial banks. Malawi is looking at special loans, ones which are not charging market rates. Dr. Wengawenga also strongly emphasized the need for tailor-made financing products for the WASH sector so that we can create room for Public-Partner Partnerships (PPPs) and take a holistic approach. They are talking now looking at issues of quality, making sure that the tariff pricing is not solely focused on profit maximization, which means that PPP models are very welcome in Malawi.

Watch the recording or consult the presentation