SANITATION AND WATER FOR ALL

Reducing the finance gap across the water and sanitation sector

A case study on the experience of developing and implementing water, sanitation and hygiene finance strategies

Summary

There is not one single way of reducing the finance gap for water, sanitation and hygiene (WASH). A range of measures may need to be taken to influence the multiple financial flows in the sector and need to be well-coordinated and sequenced for maximum effectiveness. Developing a WASH finance strategy[1] is a central step in articulating the measures to be taken. This case study reviews the experiences in developing and implementing such strategies from across multiple countries, highlighting the experience of Malawi and Rwanda.

1 UNICEF. Developing WASH Finance Strategies: A Guide. New York: United Nations Children's Fund, 2022. In collaboration with Sanitation and Water for All (SWA), Agence Française de Développement (AFD) and IRC Water and Sanitation Centre, The Netherlands https://www.unicef.org/media/127201/file/UNICEF%20WASH%20Financing%20Strategies%20Guide.pdf

Background

A WASH finance strategy helps guide sector decisions aimed at closing the finance gap. It usually contains a long-term view of the likely evolution of the costs and revenue within the WASH sector (under different scenarios). It often defines policy options, on both the cost-control side and the revenue-raising side, to close the finance gap.

A finance strategy enables prioritizing and sequencing the multiple interventions that are needed to reduce the finance gap. The SWA's Handbook for Finance Ministers[2], puts forward at least four main areas of intervention to reduce the finance gap. Similarly, the Africa Water Investment Program (AIP) identifies at least 9 investments sources to reduce the finance gap for the sector in Africa[3]. Both highlight the importance of strong sector governance and upfront investment requirements, often from domestic sources.

The process through which a finance strategy is developed may also facilitate its subsequent implementation. If done properly, the process may contribute to improved sector governance, by increasing capacity within the sector, and increase coordination amongst various sector stakeholders. It may also increase credibility of the sector, towards ministries of finance and planning or to providers of repayable finance looking to directly credit directly.

Steps

Strategy development

UNICEF and others have developed guidance for the development of WASH finance strategy [4]on the basis of the experiences of some 10 countries across the globe[5]. This details the process steps for developing such a strategy, as well as their suggested content. Figure 1 presents the main phases in the process, including a conceptual and preparatory phase, the analytical work and policy dialogue, and the final phase of supporting implementation of the recommendations.

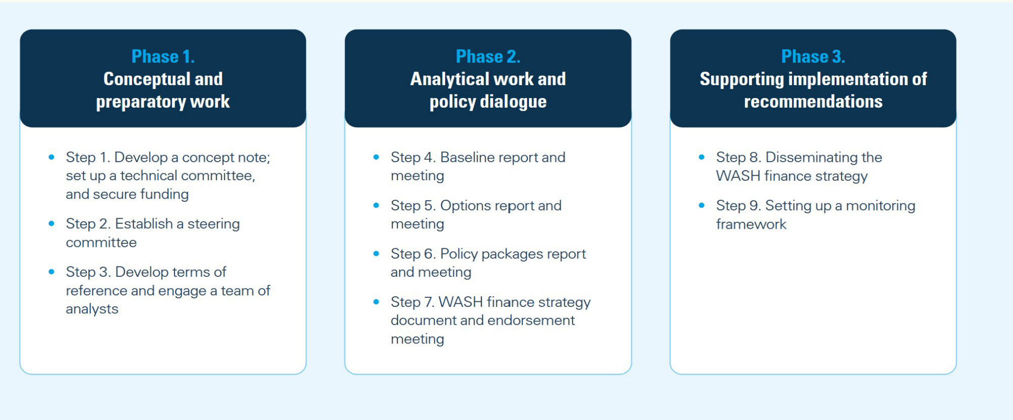

Figure 1: phases in the process of developing a finance strategy. Source: UNICEF, 2022

2 SWA. 2020. Handbook for Finance Ministers; how to make public investment work. https://www.sanitation-andwaterforall.org/handbook-finance-ministers-how-make-public-investment-work

3 International High-Level Panel on Water Investments for Africa. 2023. Africa's Rising Investment Tide: How to Mobilise US$30 Billion Annually to Achieve Water Security and Sustainable Sanitation in Africa. South Africa

4 UNICEF. Developing WASH Finance Strategies: A Guide. New York: United Nations Children's Fund, 2022. In collaboration with Sanitation and Water for All (SWA), Agence Française de Développement (AFD) and IRC Water and Sanitation Centre, The Netherlands https://www.unicef.org/media/127201/file/UNICEF%20WASH%20Financing%20Strat-egies%20Guide.pdf

5 Albania, Armenia, Cambodia, Ethiopia, Kenya, Mali, Morocco, Myanmar, Rwanda and Senegal. To our knowl-edge other countries that have since then developed finance strategies include Honduras and Malawi. In Vietnam an assessment was carried out with preliminary recommendations for elements of a finance strategy.

The suggested content of a finance strategy is presented in Figure 2. Firstly, an estimate of the financial gap is needed, through an assessment of the projected costs, and the expected financial flows. This is followed by a review of the various options to reduce the gap. This includes a quantitative assessment of how much each option can contribute to reducing the gap, but also the feasibility to implement a measure. This leads then to the recommended policy options, which may include a number of required institutional and policy reforms.

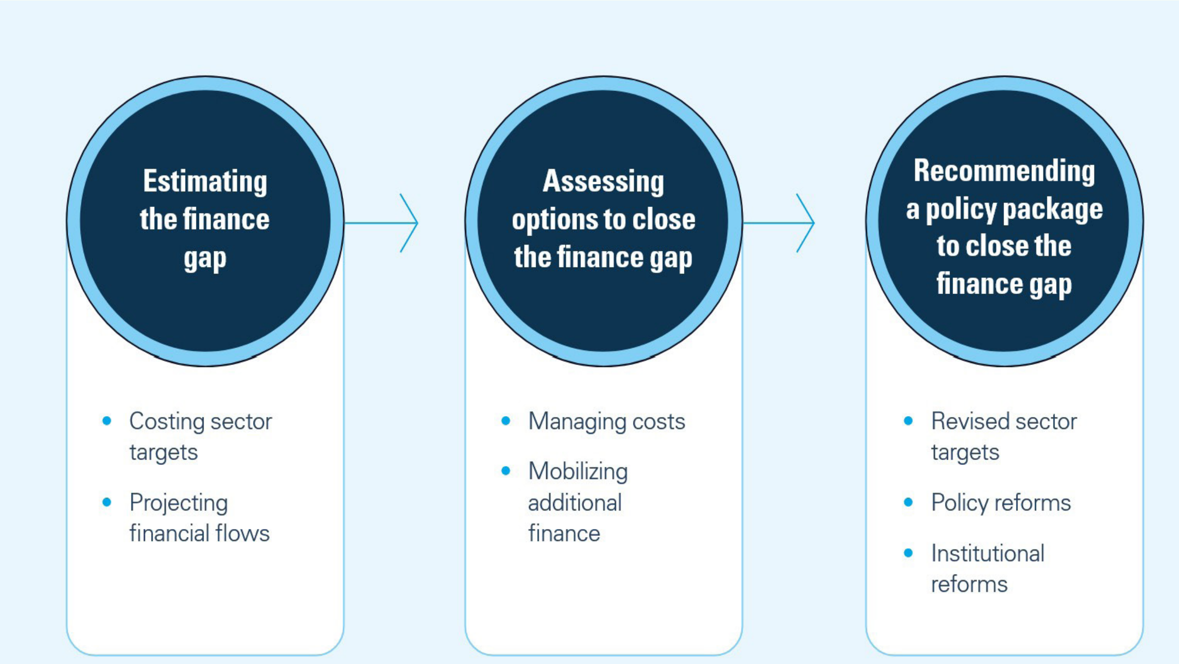

Figure 2: Elements of a WASH finance strategy. Source: UNICEF, 2022.

Implementation of the WASH finance strategy

The implementation of the WASH finance strategy depends on the range and types of interventions. As it would typically involve a number of actors working on different actions and strategies, it is recommended to establish a dedicated coordination platform, which keeps an overview of the implementation and coordinate the efforts of these actors. The example below from Rwanda illustrates how implementation coordination can happen.

Implementation of the WASH finance strategy in Rwanda

In 2022, Rwanda published its Sustainable Water, Sanitation and Hygiene (WASH) Finance Strategy[6]. The strategy identifies four main strategy areas, with a total of 19 specific actions. These actions are led by three government entities: 1) the Ministry of Infrastructure, 2) the national utility (WASAC) and 3) the regulator, called RURA. It also defines roles for a wide range of other actors, including districts, private operators, the Development Bank of Rwanda, commercial banks and others.

In parallel to the strategy, a more operational roadmap for implementing the strategy was developed. Progress in implementing the actions is reviewed in a thematic working group on WASH financing (co-chaired by the Ministry of Finance), established under the WASH Sector Working Group, under the leadership of the Ministry of Infrastructure[7].

6 MININFRA and UNICEF. 2022. Sustainable Water, Sanitation and Hygiene (WASH) Finance Strategy. Ministry of Infrastructure. Rwanda.

7 Malik, M., Kayitesi, M., Fonseca, C., Vianney Rutaganda, J.M., Hassani Y., and L. Mukamwiza. 2024. Development of a WASH financing strategy for Rwanda. Paper presented at 43rd WEDC International Conference

Monitoring progress and outcomes of implementation of the strategy

Closely related to the above, is the monitoring of the implementation of the strategy. It ideally covers two parts: 1) progress in implementing the actions, and 2) outcomes in terms of subsequent changes in the financial flows in the sectors.

The former can be monitored by defining and tracking certain activity or output milestones, and using platforms like the one described above for Rwanda to reflect on that progress.

To monitor the outcome of implementing a WASH finance strategy, a full analysis of the financial flows within a sector is needed, and can be done using methodologies such as WASH Accounts[1]. Depending on data availability this exercise may be resource-intensive exercise, and could only be conducted every couple of years. Monitoring a particular financial flows, e.g. the public finance for WASH, may be another less costly interim solution.

Results

To our knowledge, there is no comprehensive evaluation of the effectiveness/ benefits s of having sector finance strategies, therefore improved financial flows cannot only be attributed to just having such strategy. However, the achievements of Malawi and Rwanda, early developers and implementors finance strategies provides valuable insights.

Results of the finance strategy of Malawi and Rwanda

In Malawi, a sector finance strategy has enabled progress in a number of areas:

• Developing programmes for concessional finance from the World Bank and African Development Bank. The sector finance strategy identifies clear gaps and investment needs. Those form the basis for prioritizing interventions to be submitted for financing to these multilateral development banks. Having a strategy shows that the country is aware of the gaps and priorities to address those.

• Concerted efforts to improve efficiency among the Water Boards. One of the key areas within the finance strategy is to reduce non-revenue water, and Water Boards are reporting improvement in this, in some instanced down from 40% to 36% (The Lilongwe Water Board (LWB)[2] and from 30% to 24%. (Central Region Water Board (CRWB))[3] A next step is to address energy efficiency.

• Cost-reflective tariffs. One of the recommendations from the strategy is to keep tariffs cost-reflective. This in turn requires having a tariff regulation mechanism. Therefore a process has started to establish an independent regulator, which would have a mandate for tariff regulation.

• Preparing to access finance from the Green Climate Fund (GCF). The finance strategy had a strong focus on building climate resilience within the water sector. This is a precondition to start applying for climate finance. Since then steps have been taken to receive readiness support with the aim of 1) strengthening capacity of the accredited entity, 2) preparing investments in water programmes and 3) full concept note development. This is expected to eventually lead to the submission of GCF funding for investments in both water and sanitation and broader water security.

---

1 WHO. 2025. WASH Accounts https://www.who.int/teams/environment-climate-change-and-health/water-sanitation-and-health/monitoring-and-evidence/wash-systems-monitoring/un-water-global-analysis-and-assessment-of-sanitation-and-drinking-water/wash-accounts

2 https://malawiguardian.com/2024/11/06/lilongwe-water-board-reduces-non-revenue-water-loss-with-jica-supported-project/

3 https://times.mw/central-region-water-board-reduces-non-revenue-water-losses/

• Increased public finance allocations. The WASH budget has significantly increased in 2024/25 and is now worth MK205 billion (~USD121 million), approximately 3.5 times the 2023/24 allocation of MK56.8 billion and reflecting an upward – albeit fluctuating – trend since 2020/21[1].

In Rwanda, the finance strategy has enabled reported progress on multiple action areas of the strategy with tangible results such as:

• Reforms to the set-up of the national utility, WASAC, separating its role as utility from its role as developer in rural areas. Amongst others, this will enable the utility to more clearly focus on cost recovery and ensuring sustainability through tariffs; whilst attracting finance for investment in new systems in rural areas.

• Preparing to access climate finance. WASAC developed a climate resilience strategy, which articulated the approaches the utility will follow in all its work processes. This is a pre-condition for mobilizing climate finance. This was followed by initial efforts to prepare investment proposals to GCF and a national climate financier (Rwanda Green Fund).

• Strengthening the project preparation functions of WASAC. Building on the master plans, WASAC strengthens the way it turns these plans into specific bankable projects. In that, emphasis is placed amongst others in strengthening the climate rationale and climate resilience elements of projects being prepared.

• Establishing a dialogue between domestic financial institutions (both commercial banks and a public development bank, Development Bank of Rwanda) and water and sanitation sector institutions, so that the financial institutions have more insights into the investment opportunities in the sector, and the associated potential returns and risks.

• Increasing public finance allocations. The Government of Rwanda continues to increase allocations for the WASH sector - the total budgetary allocation for the sector increased by a total of 66 per cent in two years, from RWF 57.7 billion in 2021/22 to RWF 74.4 billion in 2022/23 and RFW 95.7 billion in 2023/24[2].

Key takeaways

The development of a WASH sector finance strategy provides in-depth insight into the financial flows in the sector, and where the major gaps are. It also provides a process to engage multiple stakeholders from within the water sector, and – crucially – from outside it, including financial institutions and entities with responsibilities in environmental management, planning and development. This contributes to their buy-in to the strategy.

A WASH sector finance strategy usually generates a multitude of actions for which different institutions are responsible. Therefore, the implementation and monitoring of the strategy is best overseen by a sector platform, which tracks both progress on the actions, as well as changes to the financial flows in the sector. The latter may require comprehensive tracking through methodologies such as WASH Account, or honing into a limited number of flows.

Experience suggests that having a finance strategy is a contributing factor to driving necessary changes and reforms within the water sector, even though, there is not one single, or even main, way of reducing the finance gap. Multiple actions in at least four broad intervention areas are needed. A sector finance strategy allows identifying and prioritizing the specific actions and sequencing them in such a way that they mutually reinforce each other.

1 UNICEF. 2024. Investing in climate-resilient WASH services amidst recurring climatic shocks and vulnerabilities in Malawi. Budget Brief. UNICEF Malawi

2 UNICEF. 2024. Water, Sanitation and Hygiene (WASH) in Rwanda; A situation analysis

SANITATION AND WATER FOR ALL

www.sanitationandwaterforall.org
info@sanitationandwaterforall.org

2025