SANITATION AND WATER FOR ALL

Closing the financing gap: public policy actions for water and sanitation

An advocacy brief for governments and partners

sanitationandwaterforall.org

Why this matters

Financing climate-resilient water and sanitation services is a strategic investment in health, economic stability and climate adaptation. Achieving SDG6 not only helps achieve the right of everyone to water and sanitation, it also safeguards communities and unlocks long-term prosperity. Every dollar invested in water and sanitation is estimated to bring a four-fold return. Such investment helps to avoid economic losses associated with inadequate services, which are estimated at US$260 billion annually.[1]

To achieve the SDG targets for universal access to safe water and sanitation, the World Bank estimates that there is an annual finance gap of between US$131.4 billion and US$140.8 billion.[2] This is three times the current level of spending globally. These figures may well even underestimate the gap,[3] when considering investments needed to adapt to climate change and broader water security. The financing gap is widest in low-income countries, and in fragile or conflict-affected states. This brief is geared towards water and sanitation sectors in those contexts.

Since over 90% of the financial flows for water currently come from the public sector,[4] reducing the finance gap needs to start there. This brief uses global and national-level insights to persuade ministers to lead an ambitious public policy approach, focused on:

1. Increased and more efficient public spending, and

2. Water sector reforms that enable attracting, mobilizing and absorbing long-term finance.

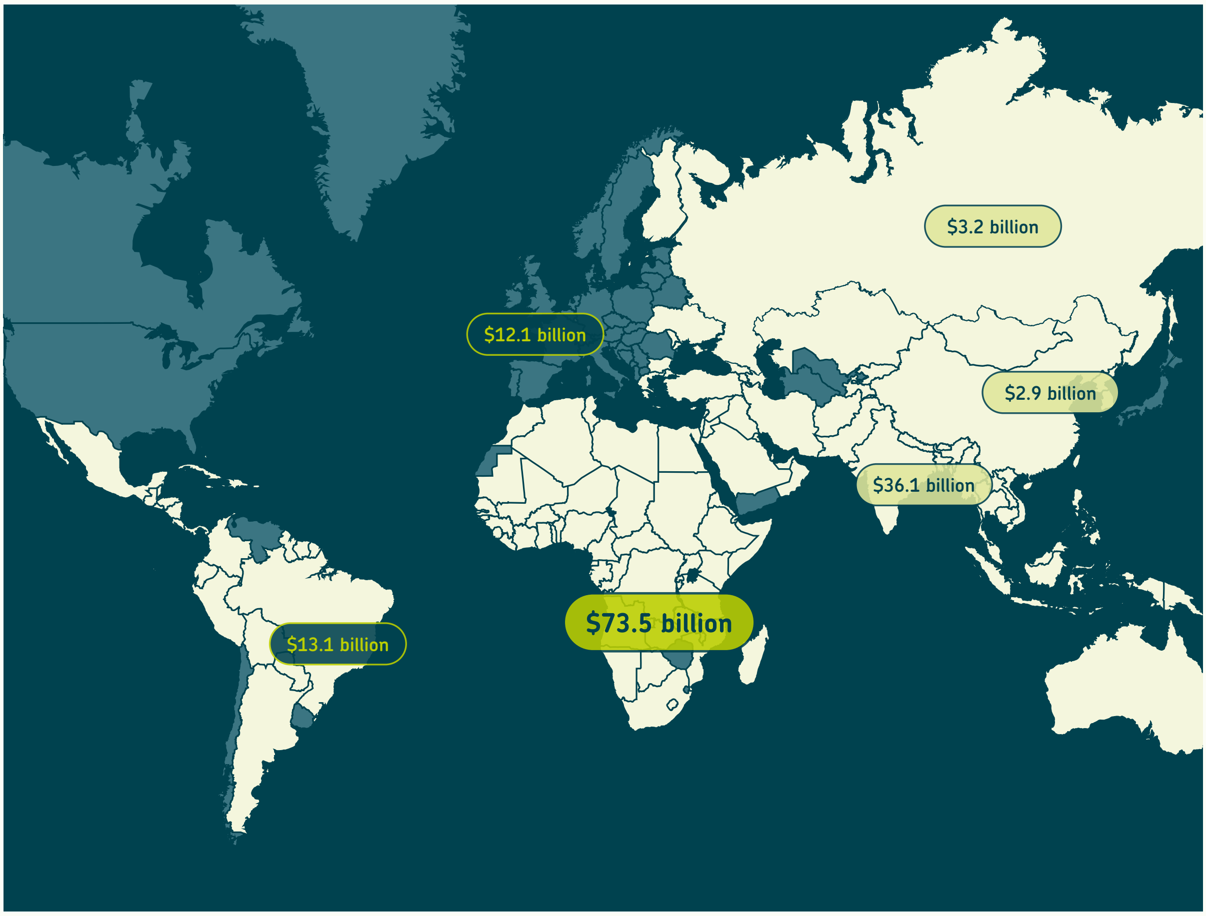

Figure 1: Annual spending gaps in the various regions of the World to achieve SDG6.1 and 6.2. Source: World Bank (2004).[2]

What ministers can do

Position water and sanitation at the heart of national development

An ambitious public policy approach starts by making water and sanitation a political priority. Countries that embed water and sanitation within their broader development priorities — whether focused on growth, services, the environment or climate resilience — mobilize far greater resources. By positioning water and sanitation as drivers of progress across sectors, they increase public budgets and attract finance from other programmes, financial institutions and private investors.[5]

Identify key opportunities

Every country will have its own priorities for strengthening financing and sector systems, reflecting different starting points and national contexts. This brief does not prescribe a single model, but highlights areas where governments can take leadership and make strategic choices to accelerate progress.

SWA's Handbook for Finance Ministers[6] identifies four areas in which the public sector can intervene to reduce the finance gap (*see Figure 2*). The greatest immediate opportunities lie in maximizing the use of existing public funding and mobilizing additional domestic finance.

Expanding access to repayable finance and advancing innovative approaches require higher levels of readiness and systems change — but they are equally vital to achieving sustainable, long-term progress.

Driving efficiency: a goal in itself, and a catalyst for additional finance

The greatest reduction in the financing gap can come from improving efficiency and productivity - achieving more results per unit of investment in the sector.[7,8,9] This begins with ensuring an effective regulatory framework[10] - the foundation for building confidence, mobilizing finance and driving results. Once such a regulatory authority is in place, the most effective public sector actions to increase efficiency include:

- Improving the performance of service providers, with a focus on reducing non-revenue water and increasing energy efficiency.
- Establishing tariff regulation that secures sufficient and predictable revenue for service providers.
- Ensuring public subsidies are efficiently targeted to maximize impact.

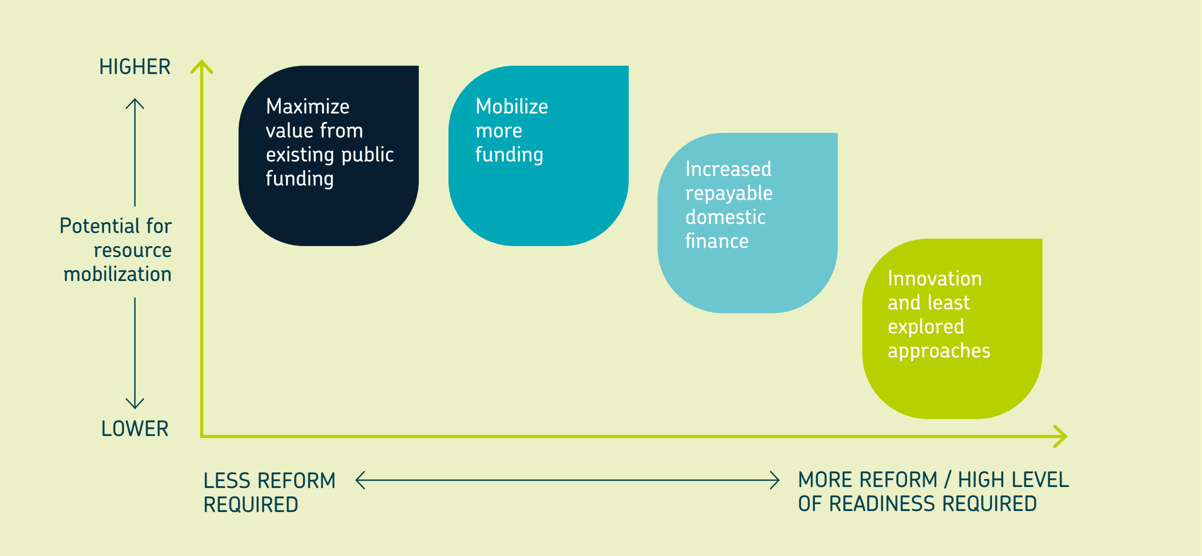

Figure 2: Four critical intervention areas and their potential to reduce the finance gap (Source: SWA, 2020)

Increasing public budget allocations and expenditure

Another major opportunity is to mobilize more public finance - both by increasing budget allocations for water and sanitation and ensuring those funds are fully spent.[11] Ultimately this means strengthening how governments plan, channel and manage funds across all levels. The World Bank identifies several key actions:

- Reforming public investment and financial management systems.
- Improving fund flows, between ministries and from national to local governments.
- Developing medium- to long-term budget plans, in order to provide predictability and stability.

> *"The World Bank estimates that only 72% of water and sanitation budgets are spent. Meaning neaerly a third of available resources that could be transforming lives are left on the table.*

Enhancing capacity to mobilize repayable finance

Expanding access to repayable finance (such as concessional loans from development partners and domestic lending from national financial institutions) can be a highly effective tool to help close the financing gap. In order to expand access, national sectors must increase their readiness for investment – by ensuring a pipeline of bankable projects, by improving creditworthiness, and by creating an attractive, enabling environment for lenders and investors. Key public sector actions in this area include:

- ***Strengthening project preparation capacity.*** Governments and service providers should build or establish dedicated facilities to prepare investment-ready projects that meet lenders' technical and financial requirements.
- ***Activating public development banks (PDBs).*** (Sub-)national PDBs remain an underused source of repayable finance for water and sanitation.[12] Between 2021 and 2023, PDBs invested an estimated US$108 billion in water – much of it climate-related – yet most of this came from institutions in high- and upper-middle-income countries.[12] To unlock their potential more widely, governments can:
  - Give PDBs a clear mandate to invest in the water sector.
  - Facilitate dialogue between PDBs and water sector entities to identify opportunities and manage risks.
  - Strengthen project preparation functions specifically to help PDBs build a viable pipeline of investable projects.

Exploring the potential of newer, country-specific sources of finance

Several additional sources of finance remain largely untapped - yet hold significant potential to help close the financing gap. Governments are encouraged to explore their relevance for specific projects or sub-sectors within their national context.

- ***Climate adaptation funds.*** These can provide medium-sized grants for targeted projects. These can provide medium-sized grants for targeted projects – meaning they are typically one-off and not a long-term source of sector finance. While application processes can also be lengthy, developing such proposals is a no-regrets step, as most financiers now require a clear climate rationale and resilience measures within investment plans. Some adaptation funds also offer grants specifically to help with project development and preparation.
- ***Innovative mechanisms for natural resources management.*** Emerging mechanisms for managing and protecting natural resources - including water resources -can help sustain water and sanitation services. Some are already operating at scale, such as debt-conversion mechanisms that have leveraged hundreds of millions of dollars for watershed conservation.[15]

- ***Sub-national finance for utilities and municipalities.*** In some countries, utilities and municipalities can directly access finance - for example, by issuing water bonds- without a sovereign guarantee. Experience in low- and lower-middle-income countries remains limited but promising, and merits further piloting.

- ***Other instruments.*** Carbon credits and blended finance funds can support targeted investments, such as container-based sanitation. Although still emerging, these mechanisms offer promising opportunities to expand finance for innovative service models.

Prioritising and sequencing opportunities

There is no single pathway to closing the financing gap. Progress requires coordinated action across all four opportunity areas explored in this brief: improving efficiency, increasing public finance, expanding access to repayable finance, and exploring additional sources.

These actions should be strategically prioritized and sequenced. In the short term, governments can focus on measures with high potential and limited reform requirements. Typically, this will mean exploring how to improve efficiency, increase public budgets, and improve on poor disbursement rates. Efforts to mobilize repayable finance or newer sources of funding demand deeper reforms and take longer to deliver results - but they also have the potential to deliver big decreases in the funding gap for water and sanitation.

To guide the process of prioritization, countries are encouraged to develop a water sector finance strategy.[18] Such strategies, already adopted in several countries, have helped achieve progress across multiple areas of reform. Broadly speaking, a finance strategy should:

- Assess the sector's financing gap over 5–15 years, reviewing all financial flows using tools such as 'WASH Accounts',[19] or similar.

- Identify and cost options to close the gap.

- Recommend policy and reform measures, with a clear sequencing plan over time.

Developing a finance strategy is more than a technical exercise: it is a political commitment to close the gap, align partners and secure the investment needed to realize universal access to water and sanitation.

Call to action

- ***Embed water and sanitation in national development priorities.*** Position water and sanitation as drivers of economic growth, public health, and climate resilience to unlock cross-sectoral finance and policy support. The financing gap cannot be closed within the sector alone - it depends on coordinated investments in water security, climate resilience and related areas.

- ***Invest in sector reform to improve efficiency and productivity.*** Most priority actions require strengthening the regulatory environment, building performance incentives, and developing project preparation capacity.

- ***Strengthen public financial management systems.*** Mobilizing additional finance depends on wider fiscal and public finance reforms that ensure funds are allocated, disbursed and used effectively.

- ***Take a strategic, sequenced approach.*** Develop a water sector finance strategy to prioritize actions, align stakeholders and sustain progress over time.

Together, these actions can turn ambition into investment — and investment into results for people and communities.

Endnotes, references and resources

[1] Sanitation and Water for All (SWA). 2020. *Water and Sanitation: How to Make Public Investment Work – A Handbook for Finance Ministers.* Available here.

[2] George, J., at al. 2024. *Funding a Water-Secure Future: An Assessment of Global Public Spending.* World Bank, Washington, D.C. Available here.

[3] George, J., et al. 2024. *Funding a Water-Secure Future.*

[4] SWA. 2020. *Water & Sanitation: How to Make Public Investment Work.*

[5] For example, in India the Swachh Bharat Mission (for sanitation) and Jal Jeevan Mission (for water) have mobilized an estimated USD 137.5 billion of dedicated direct public funding for water and sanitation. In addition, other programmes and instruments for housing, rural livelihoods and rural employment were enabled to invest part of their funding in water and sanitation. The Reserve Bank of India included water and sanitation among the priority lending sectors, enabling households and entrepreneurs to access lower-interest loans.

[6] George, J., et al. 2024. *Funding a Water-Secure Future.*

[7] SWA. 2020. Water & Sanitation: *How to Make Public Investment Work.*

[8] George, J., et al. 2024. *Funding a Water-Secure Future.*

[9] 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. Available here.

[10] The upcoming 2025 GLAAS report found that low-income countries are less likely to have regulatory authorities. Moreover, the efficacy of regulatory authorities varies. Source: WHO and UNICEF. 2025. *State of Systems for Drinking-Water, Sanitation and Hygiene – Key findings 2025.* WHO & UNICEF, Geneva. (To be published in December 2025 and available here).

[11] George, J., et al. 2024. *Funding a Water-Secure Future.*

[12] Fonseca, C., et al. 2021. *The Role of National Public Development Banks in Financing the Water and Sanitation SDG 6, the Water-related Goals of the Paris Agreement and Biodiversity Protection.* AFD, Paris. Available here.

[13] Fonseca, C., and de Paula, D. 2025. *Public Development Banks' Investments in Water 2021-2023; An Analysis of a Sample of Public Development Banks Identified by the Water Finance Coalition. Water Finance Coalition*, Paris. Available here.

[14] Middle-income countries with (sub-)national PDBs that have substantial investment portfolios in water include Brazil, China, Colombia, Ecuador, Indonesia, Mexico, South Africa and Turkey.

[15] For example, in 2024, El Salvador committed US$ 350 million over twenty years to watershed conservation in the Rio Lempa basin, the largest conservation allocation ever made through a debt conversion transaction.

[16] See, for example, the UN Capital Development Fund's case study from 2024: 'Unlocking domestic finance through East Africa's first sub-national green bond'. Available here.

[17] Container Based Sanitation Alliance (CBSA). 2023. *Unlocking Carbon Credits for Sanitation: Briefing Paper*. Available here.

[18] UNICEF. 2022. Developing WASH Finance Strategies: A Guide. UNICEF, New York. Available here.

[19] WHO. 2025. Available here.

SANITATION AND WATER FOR ALL

www.sanitationandwaterforall.org
info@sanitationandwaterforall.org