



Water, Sanitation and Hygiene Matters for Everyone: Why Every investment in WASH Counts

Policy brief from WASH Finance Strategy June 2024 Key Points

» Access to clean water, adequate sanitation, and hygiene (WASH) is fundamental to human health, dignity, and economic development.

» In Ethiopia, despite significant progress, millions still lack these basic services.

The disparities between urban and rural areas are stark, with rural communities disproportionately affected by inadequate WASH facilities.

» In 2022, according to Joint Monitoring Program (JMP), Ethiopia's WASH status indicated limited access to basic hygiene, sanitation, and drinking water services, with only 8.32%, 2.12%, and 38.28% coverage respectively.

» Ethiopia WASH sector requires US\$ 2.2 billion annually to achieve SDG 6 by 2030 with huge, 55%, funding gap.

» The Ethiopia WASH Finance Strategy has solutions to close the funding gap with a potential to mobilize US\$ 0.5 to 1.27 billion per annum in low and high case scenarios.

» The finance strategy options, and the proposed implementation plan aim to address some of the challenges that prevent funding flows to the sector and provide solutions to improve the financial landscape of the WASH sector in Ethiopia.

Continuing the status quo, without embracing change, is neither a viable nor sustainable approach for WASH Finance.

Ethiopia WASH expenditure stands at 0.12% of GDP¹. This is lower than the global average for low-income countries, and significantly below the global average for lower-middle income countries that Ethiopia aspires to.

Water, Sanitation, and Hygiene (WASH) are critical components of public health and socio-economic development. In Ethiopia, access to these essential services remains limited, particularly in rural areas. This brief advocates for increased investment in WASH infrastructure and programmes, highlighting the importance of sustainable financing to achieve universal access.

Despite the improvement in the key WASH outcomes and essential interventions, there is still a multi-layered challenge that limits the population's equitable access to quality health services, and coverage of basic WASH services still varies significantly across population groups.

The annual funding requirement for WASH in Ethiopia, including Total Sanitation to End Open Defecation and Urination (TSEDU) costs, is estimated at ETB 114.6 billion (²US\$ 2.08 billion), indicating a large investment need. Despite an annual resource projection of ETB 49.4 billion (around US\$ 898 million), there is a substantial funding gap of ETB 65.2 billion per year (equivalent to US\$ 1.14 billion), underscoring the significant financial challenge of meeting WASH development objectives. Closing this gap is imperative to fulfil the sector's ambitions and ensure access to essential WASH services for all Ethiopians.

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¹ GLASS 2021/22 report

² 1 USD = 55 ETB, National Bank of Ethiopia 2023/24 exchange average

WASH Finance Strategy

Ethiopia's goal of achieving universal WASH coverage by 2030 faces a significant challenge due to insufficient funding. To address this, the WASH Finance Strategy aims to mobilise domestic resources and private capital, promoting a shared financial responsibility between public and private sectors. The Strategy, recognising the substantial economic benefits of WASH investment, aligns with the government's commitment to a healthier and more prosperous Ethiopia. Its main objectives include bridging the finance gap, enhancing existing investments' efficiency, advocating for increased public spending, attracting private sector investments, improving aid effectiveness, and ensuring equitable finance distribution to address budgetary inequalities.

The development of the Strategy was led by the Ministry of Water and Energy and the Ministry of Finance and co-led by the Ministry of Health and the Ministry of Education. Stakeholders, including national and sub-national government bodies, financial institutions, and development partners, were actively engaged and provided valuable inputs at different stages of the Strategy's development.

“Ethiopia already has a good foundation on which to build a strong investment case for WASH.”

A strong foundation has been laid, primarily through the establishment of the One WASH National Programme (OWNP) and the implementation of a financing scheme, the Consolidated WASH Account (CWA). This pooled fund has significantly improved sector performance by prioritising programme goals over individual project or donor interests. The OWNP has spearheaded notable reforms by fostering multi-sectoral collaboration. Moreover, the sector's leadership commitment to developing the WASH Finance Strategy underscores the solid groundwork for advancing the sector and ensuring sustainable impacts for the country.

Ethiopia's pursuit of universal WASH access by 2030 faces significant financial hurdles, including inadequate tariff regulation, unclear responsibilities among service providers, poorly executed business plans, limited involvement of commercial banks, a quasi-monopoly hindering private sector entry, and difficulties in Water Development Fund (WDF) loan repayment. The new WASH

Finance Strategy offers hope, outlining strategies to tackle these challenges and ensure sufficient and sustainable financing for the sector. This initiative signals a proactive approach towards overcoming obstacles and advancing the goal of universal water access in Ethiopia.

Establishing a sound WASH Finance system is not only closing the funding gap but it is the cornerstone that shapes the entire WASH system, influencing every aspect of WASH.

Ensuring sustainable finance for Ethiopia requires addressing key foundational issues such as tariff reforms, regulatory frameworks, and accountability mechanisms. Implementing an effective Management Information System (MIS) to track service delivery and investment, along with improving the risk profile of the sector within financial institutions, is crucial.

Why Invest in WASH?

Investing in WASH is not only crucial for public health, education, and societal benefits in Africa but also yields significant economic returns of up to 700%. According to a report from the International High-Level Panel on Water Investments for Africa, every US\$1 invested in climate-resilient water and sanitation results in at least US\$7 in returns for African economies. This investment stands to disproportionately benefit women and girls, reducing the time they spend fetching water —around 16 million hours per day collectively across sub-Saharan Africa — allowing them to allocate more time to education for paid work. Furthermore, addressing issues like diarrhoea through improved WASH services could generate approximately US\$86 billion per year in increased productivity and reduced health costs globally. These insights highlight the economic and social value of prioritising investment in WASH infrastructure and services in Africa. (Source: Economist Impact 2023. Harnessing the economic benefits of investment in water, sanitation and hygiene in Africa.)

Achieving universal access to WASH in Ethiopia requires a concerted effort from all stakeholders. Increased and sustainable financing is crucial to build the necessary infrastructure and ensure long-term service provision. By prioritising WASH, Ethiopia can make significant strides towards improved public health, economic development, and social equity.

Opportunities for WASH Finance

Increasing domestic investment in WASH in Ethiopia requires elevating WASH as a national priority. It is noted that required budget to achieve universal basic WASH for SSA countries is 1.63% of GDP³ while the Ethiopia WASH expenditure as share of GDP is 0.12%⁴ which is far below what is required.

However, recognising the fiscal constraints, and competing sectoral demands for government, there is a firm belief in the necessity of mobilising **domestic resources, including private capital**, to ensure WASH access for all and to share financial responsibility between the public and private sectors. This can be achieved through innovative financing mechanisms such as Public-Private Partnerships (PPPs) and blended finance to attract additional resources.

Strengthening institutional frameworks is essential, involving capacity building for local institutions to enhance their ability to plan, manage, and implement WASH projects effectively. Moreover, promoting decentralised management of WASH services can improve efficiency and accountability at the local level.

“We support the call both to raise more WASH finance and to make each dollar go further. As we work to allocate more of our own budgetary resources, such outlays could be positioned to leverage finance from other sources⁵.”

Improving donor coordination is vital for maximising the impact of external assistance. This means ensuring that donor funding aligns with national WASH priorities through improved coordination and alignment of objectives. **Encouraging donors to support sustainable, long-term funding models rather than short-term projects can enhance the sustainability of WASH interventions.**

Inclusive WASH in Ethiopia requires a broader WASH systems process, including planning, budgeting, and management, to ensure that all needs are met.

Challenges include a lack of a unified and shared understanding among stakeholders, clear gender-sensitive indicators, disaggregated monitoring and evaluation systems, limited knowledge and understanding of policies and strategies and the need for cross-targeted subsidies to cover the tariffs and connection fees of vulnerable groups.

WASH Finance Strategy

The WASH Finance Strategy has identified potential strategies for generating sustainable domestic funding to support WASH services in Ethiopia. The analysis highlights a variety of domestic finance options, estimating their potential revenue generation with various assumptions. The potential resource mobilisation from these sources ranges from ETB 27.4 billion (approximately US\$ 0.5 billion) to ETB 70.1 billion (approximately US\$ 1.27 billion) annually. **This range suggests that a significant portion of the financing gap for WASH services can be addressed through these sources.** However, achieving the 2030 targets will require substantial additional annual funding and concerted efforts.

The finance options that can potentially mobilise additional finance or save costs on an annual basis include revising water tariffs (ETB 8.5-16.6 billion), accessing climate finance (ETB 5.5-22 billion), increasing government budget allocations (ETB 10.6-13.4 billion), and securing loans from domestic banks and MFIs (ETB 4.8-11.6 billion). Additional measures involve increasing community contributions (ETB 0.5-2.5 billion), replacing diesel by solar-powered pumps (ETB 0.05-2.2 billion), and revising sanitation tariffs (ETB 0.17-0.54 billion). Other recommended potential sources include reducing Non-Revenue Water (NRW), setting tariffs for high-water consumers, using smart water meters, and implementing tax exemptions on hand pumps. To further support WASH finance, increasing Forex access, promoting private sector participation, establishing asset management mechanisms, enhancing creditworthiness, and improving the capacity and accountability of the WDF are all viable options, although these measures are not quantified in the revenue estimates.

Accessing climate finance to support climate-resilient WASH projects can be justified through initiatives like NRW reduction and transitioning to solar-powered pumping systems. NRW reduction conserves freshwater resources and improves energy efficiency, crucial in areas facing water scarcity due to climate change. Efficient water systems reduce energy consumption, aligning with goals to lower carbon emissions. Additionally, switching from diesel to solar-powered pumps directly cuts carbon emissions and promotes sustainable energy use, strengthening the case for securing climate finance.

³ World Bank, 2024, Funding a Water-Secure Future : An Assessment of Global Public Spending

⁴ UN-Water Global Analysis and Assessment of Sanitation and Drinking-Water, GLASS 2022 report

⁵ Communique WASH Leadership Summit: Eastern and Southern Africa Mobilizing Finance and Promoting Systems Change Addis Ababa, November 14–15, 2023.

WASH FINANCE STRATEGY PRIORITIES AND EXPECTED OUTCOMES

