

Urban Water Catalyst Initiative (UWCI)

A gamechanger for sustainable, just and climate-resilient water and sanitation utilities



Urban Water
Catalyst
Initiative

Background

Water and sanitation services are essential, and their underlying infrastructure is critical for the economy and a prosperous society, especially in a multi-crisis world that must simultaneously address climate change, pandemic prevention, poverty reduction and food security.

However, the global **access gap to water, sanitation, and hygiene (WASH) is tremendous**: Over **2 billion people worldwide** do not have access to safely managed drinking water; **3.6 billion people** do not have access to safely managed sanitation services. Population growth, urbanization, disrupted supply chains, and soaring energy prices aggravate the situation. Trends like these have detrimental consequences for water security, healthy ecosystems, and sustainable economic, environmental, and social development.

Well-functioning utilities are vital in providing **reliable and resilient WASH services** to growing urban populations. Yet, they often do not receive sufficient investments and infrastructure maintenance, are lacking in capacities, and missing long-term concepts for operational and maintenance cost recovery. This hampers their transition to commercial and capital market financing, desperately required to close the massive SDG 6 financing gap (see box 1).

A tripling of capital investments (US \$260 billion/year)



is needed globally to achieve SDG 6.1 (safe drinking water) and 6.2 (adequate sanitation & hygiene) by 2030 (UN Global Sustainable Development Report, 2023).

A **paradigm shift** towards **strong partnerships** and **innovative financing solutions** is needed to promote financially viable urban water and sanitation utilities. Stable utilities play a crucial role in tackling the impacts of climate change, preventing pandemics, and ensuring effective water management that allows for food security while fostering urban resilience.

The economic benefits of investing in WASH are significant:



Each US-Dollar invested in WASH can generate up to a **\$21 return** (WaterAid, 2021).



Global access to safe WASH would **reduce the global burden of disease by 10%** (CDC, 2021).



Universal access to basic water and sanitation could generate **\$18.5 billion/year** from avoided deaths alone (Water.org, 2022).

Innovation and partnerships to unlock finance for water security

Germany with the support of other international partners including the **Government of the Netherlands** and the European Union, are establishing a highly **transformative approach** to addressing these challenges: the **Urban Water Catalyst Initiative**.

This initiative will be implemented through a global grant facility. The facility will provide tailored support through technical assistance and operational finance offerings. At the same time, a loan and guarantee window will offer direct corporate loans for infrastructure investment and guarantees to support local commercial financing. This will help to close the SDG 6 financing gap by:



accelerating urban water utility turnarounds¹ in low- and middle-income countries, and



mobilizing additional large-scale public and private finance (blended finance) to improve performance, invest in climate-resilient infrastructure, and expand access for underserved population groups.



Vision

Access to safe and climate-resilient water and sanitation services in urban areas for all, contributing to Sustainable Development Goals (SDG) 6 (“Clean Water and Sanitation: Ensure availability and sustainable management of water and sanitation for all”) and 13 (“Climate Action: Take urgent action to combat climate change and its impacts”) through well-performing, financially viable and resilient urban water and sanitation utilities.

Vision and Rationale

UWCI's vision is to realize the **human rights to water to water and sanitation** in urban areas for all. It makes a significant contribution to SDGs 6 (6.1, 6.2) and 13, as well as 1 (“No poverty”), 3 (“Good health and well-being”) and 11 (“Sustainable cities and communities”) and thus to the fulfillment of the **2030 Agenda**.

The initiative fully acknowledges that affordable, equitable and reliable access to water and sanitation as basic public services need to be safeguarded for the whole society. Thereby, the SDG principle of ‘Leave No One Behind (LNOB)’ requires accelerating expansion of basic services especially to those, who are still underserved and discriminated by current practices.

Therefore, the initiative seeks on global level cooperation with public and philanthropic donors, development financiers as well as impact-first investors. On country level, any mobilization of domestic commercial finance or investors must guarantee at the same time affordability and reliability of services to all customers of a utility and support the expansion of access. Experience shows that inefficient utilities are not able to increase service coverage, which hurts underserved population groups the most. Only an efficient utility with sufficient access to sustainable finance can invest in service expansion and contribute to SDG 6.



Mission

Improving and accelerating the performance and climate resilience of urban water and sanitation utilities by mobilizing additional finance through enhanced cost recovery and creditworthiness.

¹ The term “turnaround” indicates a significant improvement in technical and financial performance.

Many water and sanitation utilities worldwide are not operating efficiently and do not achieve operational cost recovery despite comprehensive donor support and sector reforms. However, investing in the water and sanitation sector without addressing the challenge of utility performance contravenes effective use of development finance. It perpetuates in many cases dependency on subsidies and Official Development Assistance (ODA).

The **SDGs** not only require a **tripling of investment**, but development finance also competes for adequate investment opportunities – **80% of ODA finance** to the sub-Saharan urban water sector flows to just **3% of (the better performing) utilities²**.



Only strong utilities can sustainably expand services to vulnerable, underserved population groups. Accelerating utility turnarounds is thus necessary to reach those left behind and build climate resilience.

The UWCI will support the utilities' transition away from reliance on development partners, increase the demand for domestic commercial loan finance and result in more sustainable and cost-effective lending.

Status

The initiative will work with **reform-minded** utilities in countries where external conditions are sufficient to allow for good utility performance, including establishing creditworthiness. The goal is to create more bankable urban water utilities operating in selected **low- and middle-income countries**, increasing the level of sustainable investment into the sector.

Based on the findings of the feasibility study eligible utilities in selected countries in North Africa, Sub-Saharan Africa, Latin America, Eastern Europe and Asia will be invited to submit proposals for funding from the initiative. For the first phase a maximum of 10 utilities which express demand for the offering will be competitively selected. For further scaling up, additional utilities eligible for technical and financial support from the initiative will be identified through a global competitive call for proposals.

The German Development Cooperation cooperates with Dutch and German water operator partnership programmes³ to develop the pipeline of utilities⁴ through a proposal-based application process. The German and Dutch Governments have made commitments, and a guarantee from the European Fund for Sustainable Development Plus (EFSD+) will support the loan and guarantee offering of the initiative.

The UWCI welcomes cooperation and contributions. Thus, donors, governments, and investors are invited to join the initiative, which will be launched during the high-level UN 2023 Water Conference in New York in March 2023 and is one of the key commitments of Germany and the Netherlands to the Water Action Agenda to an accelerated SDG6 implementation and the upcoming high-level SDG events.

² <https://www.oecd.org/water/OECD-GIZ-Conference-Perspectives-Christopher-Gasson.pdf>

³ KfW, GIZ and WaterWorX are partnering on the operational implementation of the initiative. WaterWorX is a Dutch water operator partnerships programme (See gwopa.org/what-we-do/projects/waterworx). Further information on the German Utility Partnership Platform can be found here: www.utilityplatform.connective-cities.net

⁴ Studies are being undertaken in 15 countries: Bangladesh, Colombia, Egypt, Ethiopia, Kenya, Indonesia, Philippines, Laos, Moldova, Morocco, Tanzania, Uganda, Ukraine, Vietnam and Zambia.

A unique approach and offering to committed utility leaders

A competent management team lies at the heart of a successful urban water utility as experience around the world clearly shows⁵. A supportive (political) environment is key to operate sustainably and generate sufficient revenues. Under these conditions, it is possible for a utility to extend the urban piped water network and sanitation services to the vast majority of city residents, even in low-income countries, and to be sustainably financed.⁶

The initiative combines **eight elements** that, together, offer a unique approach to utility turnarounds with a greater chance of success (**Figure 1**):

1. UWCI is implemented through a **unique dedicated vehicle** set up to support and accelerate utility turnarounds and offer linked finance.
2. The initiative will provide support only where political and utility leadership can create and protect the **essential conditions for utility success**.⁷ It will select participating utilities based on proposals and demonstrated commitment.
3. **Progress will depend on performance**. Participating utilities require consistent leadership to improve performance before proceeding through further program phases. The initiative encourages a rapid results approach. It will enable and sustain improvements with flexible just-in-time and fit-for-purpose support, building on best practices.⁸ The achievement of key performance milestones will be independently monitored and verified.
4. The UWCI grant facility **will make operational finance** available early in the process to support performance improvements, focusing on improving cash flows and reducing operational costs (e.g., for water loss reduction, digitalization or increased energy efficiency). Utilities often need help accessing this kind of finance.
5. The facility will offer **corporate financing** not dependent on project-specific appraisals. This comprises sound project preparation and quick disbursement of funds based on well-defined assessment criteria and milestones. The essence of corporate, balance sheet financing lies in the credibility of the utility's management team, governance stability, as well as predictable and secure cash flows.
6. The UWCI will promote **local currency lending**, in particular through guarantees, and advisory services for local banks to support domestic commercial lending to the participating utilities.
7. Funding will be based on the utility's priority investment needs and plans, and be **incremental, matching the absorptive capacity of the utility** and contingent on meeting defined performance thresholds.
8. Investment funds will build **climate resilience** and a portion will be dedicated to extending access in underserved areas and improving service quality (**pro-poor**).

5 See "Providing Water to Poor People in African Cities Effectively: Lessons from Utility Reforms" (World Bank, 2016)

6 "Improving access to urban water sustainably in sub-Saharan Africa and beyond: A way forward for German Development Cooperation and its Partners" (GIZ, June 2018).

7 See "Review of success stories in urban water utility reform" (SECO, 2016).

8 Examples include the Utilities of the Future and the Utility Turnaround Framework (developed by the World Bank) and methods adopted by WaterWorX and the German Utility Partnership Platform.

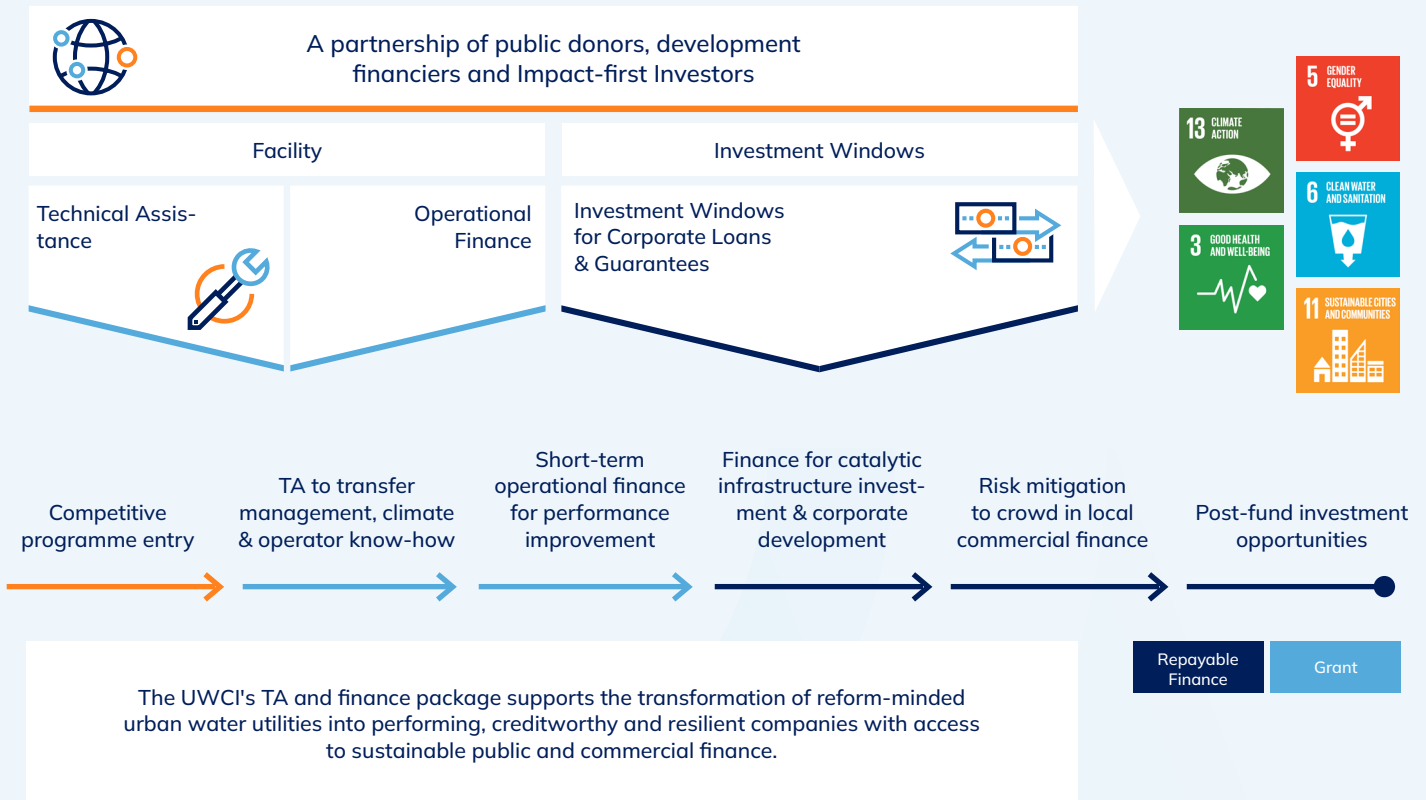


Figure 1: The overall concept of the Urban Water Catalyst Initiative (UWCI)

Management and operational-focused technical assistance

The initiative will support and work closely with the utility leadership and top management team. It will be responsive to their prioritized needs, drawing on established best practices for transferring management

and technical know-how (Figure 2). Water operator partnerships can play an essential role by offering practical and operationally focused peer knowledge transfer – from North-South or South-South.

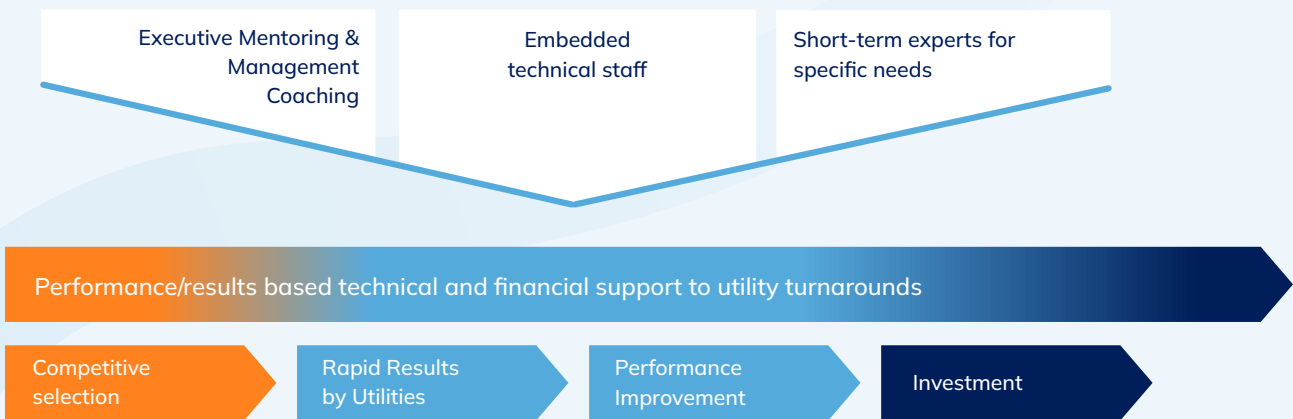


Figure 2: Technical assistance transfers management and operators' know-how through partnerships with well-performing utilities

Utility perspective

Figure 3 shows the process from the perspective of a utility applying to the initiative. The utility applies to the UWCI, demonstrating commitment by making improvements using its own resources, with external facilitation support. Once defined milestones during an inception phase are met, technical assistance is provided in stages. Early in the process, the initiative provides

operational finance for small investments that support efficiency improvements with a focus on improved cash flows. This is followed by incremental finance for infrastructure investment. The initiative exits with an appropriate creditworthiness target achieved and additional external financing arranged.

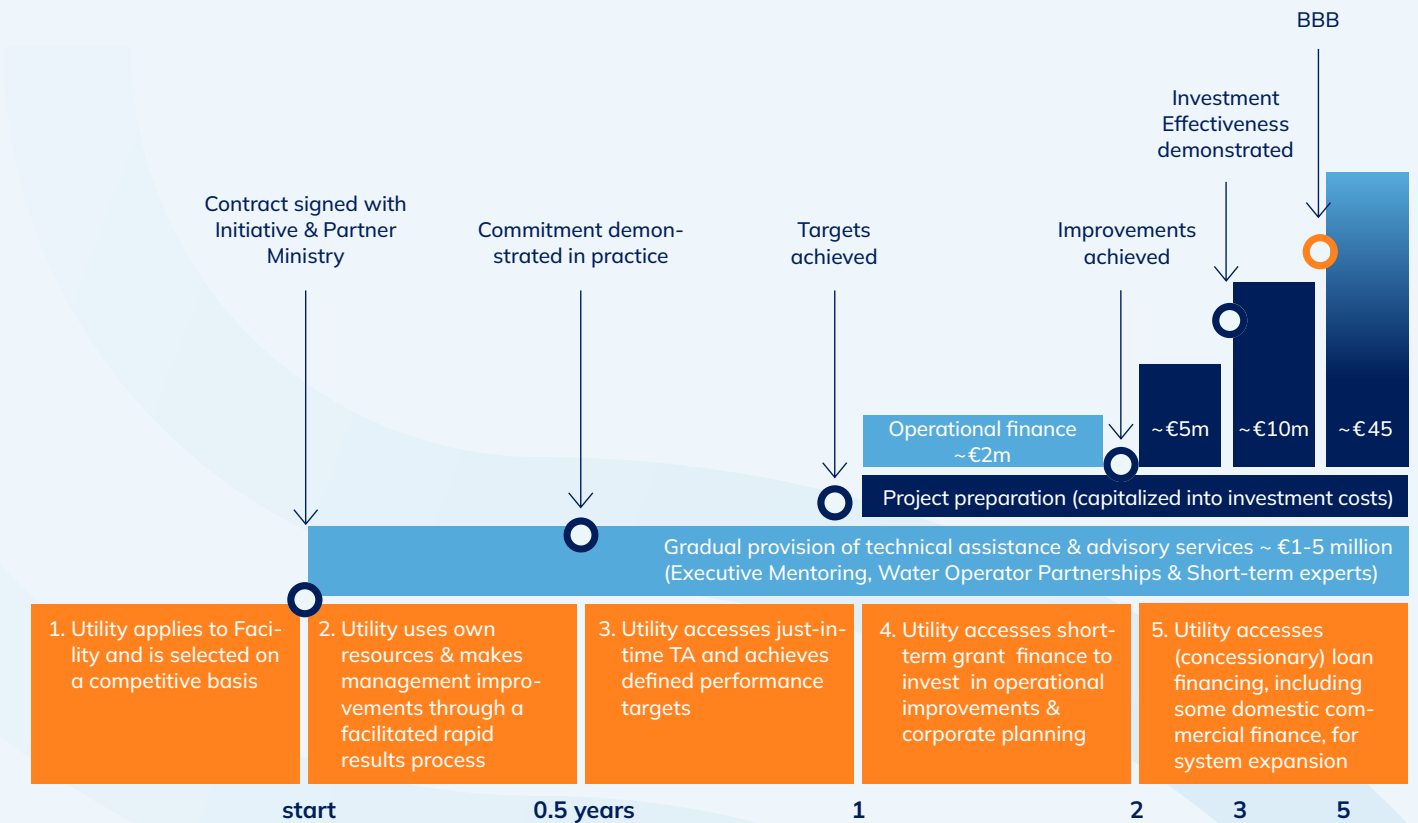


Figure 3: The UWCI's offering from the perspective of a utility
 Note: Indicative amounts for a total infrastructure investment of €60 million.
 The timing depends on the specific context of the utility.

Repayable Finance	Grant
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The establishment process

The Initiative will be implemented via **two "windows"**: A technical assistance and grant facility⁹ supported by various donors will provide both technical assistance as well as operational finance. The intention is to make the

facility operational towards the end of 2023. It will start implementing the proof of concept of the initiative. The loan and guarantee offering of the initiative will be developed in the following two years.

⁹ The facility will be established based on the results of the ongoing feasibility study.

An essential role for development finance institutions and technical assistance partners



UWCI will **increase the number of investment opportunities** in urban water utilities. Financiers may participate directly in the initiative, support it financially and/or providing concessional finance through the initiative. Financiers will also be able to provide investment finance to utilities that have become creditworthy through the process. There are also opportunities for sharing best practices via the initiative's network and website. Successful implementation will require the support and cooperation of country governments, development partners, and development finance institutions.



The availability of **fit-for-purpose, just-in-time, and flexible technical assistance** that supports management effectiveness and is practical and operationally focused will play a key role in the

success of the initiative. The focus is on the transfer of appropriate management and operational know-how from within other water utilities.



The initiative will reach out to partners such as Leading Utilities of the World, WaterWorx, EU Water Operator Partnership Programme, German Utility Platform, Global Water Operators' Partnerships Alliance (GWOPA), GIZ, and others to assist in making this expertise available. In particular, the initiative will seek the services of people with integrity who have successfully led and managed urban water utilities or have the necessary management, operational, and technical experience and expertise.

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